SOME EFFECTS
OF
CANADIAN TARIFFS

By

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A Thesis

Submitted for the Degree of Bachelor of Arts

in

Honour Political Economy

McMaster University
Hamilton, Ontario
April, 1950

PREFACE

In this thesis, it has been my intention to trace the history of the Canadian tariff, and to show how it has effected the Canadian economy: its development, structure, and balance.

As a treatment of the subject, this study is far from complete. A lack of that essential, time; and a paucity of information available to the undergraduate, have forced me to restrict my investigation to a survey of the major effects of the tariff upon some of the more important Canadian industries: especially iron and steel, farm implement, textile, lumbering, agriculture, and automotive.

Probably the most important criticism of this work will be that commonly applied to undergraduate dissertations, its mere restatement of information and opinion in a well-documented field. While this is true, I have attempted to maintain a freshness of approach which will, I hope, justify my efforts here.

Mr. John E. E. Osborne, who has borne up well under the strain of supervising my work; and Mr. John H. Panabaker, who has been forced to listen to the clatter of my typewriter during the pre-examination study period, deserve special mention and thanks for their sympathetic understanding.

H.W.C.S.

McMaster University,

April 14, 1950.

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CHAPTER I

Early Tariff Policy

The American Revolution dealt a staggering blow to British Mercantilist policy. Britain as a result of the Revolution was forced to adopt a new system as the basis of empire. Until the Revolution, Canada, outside of her furs, had had little appeal for the British statesman or merchant. With the loss of the American colonies, however, the value of Canada as a part of the British Colonial System began to become evident. One of the first effects of the Revolution on the northern colony was the passing of the Declaratory Act of 1778, by which the British bound themselves to levy duties only for the regulation of trade, and to leave the revenues collected in the colonies where they had been obtained. It is worthy of note that at this time Canada had no fiscal authority and the act consequently had little effect. The Act is noted in this writing only because it represented the establishment of a principle.

In 1787, Lord Dorchester in the hope of annexing Vermont to the St. Lawrence colonies, opened up legal trade between the Canadas and the United States. This action allowed for the free importation of lumber, naval stores, flax, grain, provisions and all products grown in neighbouring states. Later, in 1790, pig and bar iron were included in the list of free-entry articles. The entry of rums, spirits and manufactured articles was prohibited.

In 1791 the Constitutional Act divided Quebec into two provinces without defining the powers of local government. Both provinces immediately began to levy duties for revenue purposes independent of imperial statutes. After 1791, therefore, the Canadas began a dual customs system. Regulations applying to colonial trade were written into British Statutes, and local duties were adopted by the colonial legislatures.[1] In 1793, Upper Canada demanded the right to impose duties at Quebec on imports of wines bound for Upper Canada. A division of all duties collected in Quebec was adopted as an alternative, with Upper Canada receiving one eighth of the duties so collected. In 1797 this arrangement was adjusted and the duties were divided, using as a base, the report of a customs reporting officer stationed at Coteau du Lac. In this year an inter-provincial council recommended that Upper Canada place a duty on inland trade equivalent to that which Lower Canada had levied on the sea-borne imports. Upper Canada refused to levy this duty as the United States at that time had placed no duty on imports from Canada. In 1801, Upper Canada placed this duty in effect when the Americans levied a tariff on Canadian exports.

At the request of Lord Dorchester, Lower Canada, in 1795, placed a tariff on wines, liquors, sugar, coffee, salt, tobacco and playing cards. This tariff is important in that the drawback is first employed in Canada to encourage domestic industry. A full refund of the salt duty was allowed if the salt was used in the fishing industry, and a lesser refund

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1) McDiarmid, O. J., Commercial Policy in the Canadian Economy, Cambridge, Harvard University Press, 1946, p. 20.

was granted if the salt was used in meat packing. In 1796, Jay's Treaty provided that non-prohibited products might cross the border without discriminatory duties. The treaty gave the governors of the colonies the power to suspend earlier ordinances governing trade with the United States. These Colonial tariffs were permanent legislation of the Canadas and lasted until 1839 and, in the case of the 1793 levy on wines until 1842. In addition to these levies, imperial duties, which at this time consisted of the duties of 1764 and 1766 on wines, molasses, and pimento, and the Quebec Revenue Act duties, were levied in the provinces.

Lower Canada, in 1805, increased its duties on tea, spirits, wines, molasses and syrup. Upper Canada followed in 1807. The purpose of these duties was to raise funds for a jail-building program, but so successful were the results that the tariff was allowed to remain until 1813.

Evasion of the tariffs was the rule rather than the exception in Upper Canada where until 1800 only half-hearted attempts were made to collect the impost. The Lakes were, in fact, great free-trading centres with the balance of trade generally in favour of Upper Canada. This smuggling was happily accepted by the majority of the people in Upper Canada. The maximum freedom of trade was favoured by all, since it meant a wider market for exports and lower prices for imports, but the larger merchants would have confined this commerce to transit goods or goods that would have increased Canada's exports to Great Britain.

The War of 1812 and the Post-War Period.

Commercial relations with the United States deteriorated rapidly in the first decade of the nineteenth century. In 1812, Britain prohibited the entry into Canada of all goods from the United States which were not American products. This prohibition was urged by Canadian merchants whose trade had been visibly affected by the high 20% tariff which the United States had levied on imports from Canada. The administration and control of trade was, however, not necessary because of the war. The revenue of the Canadas was strained by the war, and in 1813 the provinces legislated a general ad valorem duty on all imports not specifically dutiable or on the free list.

At the conclusion of the war, trade policy with the United States was on shaky ground. A conflict of opinions between economic interests had developed. Colonial merchants were in favour of a return to pre-war trade. Members of the Governor's Council, British merchants and the Colonial Office wished the border closed. The British official opinion was that in keeping the border closed there would be a stronger tendency for Canadians to arrive at a stage of self-sufficiency and independence. The passing of the British Corn Laws in 1815 added to the clash of interests. In spite of the friction, the Imperial Government for three years did not take a definite stand. The Canadas were left to flounder and choose their own course which veered sharply from a high tariff on manufactured goods in 1815 to a revival in 1816 of the earlier ordinances which had been abandoned in 1796. In 1817 the legislature of Lower Canada, to protect the St. Lawrence merchants, authorized the entry of any goods which had been admitted in the past. In 1818 Upper Canada passed an act which eliminated most of the restrictions of the old ordinances. Upper Canada betrayed early protectionist tendencies in 1821 when it petitioned for an imperial duty on United States wheat entering Lower Canada when Canadian wheat was being excluded from the United Kingdom by the Corn Laws.[1)]

Post 1822, Conflicts.

A distinct break in Canadian attitudes toward the commercial policy appeared after 1822. Merchants wishing to strengthen the preference given to Canadian goods in the British market found that their interests clashed with the interests of agriculturalists who were seeking protection from American farmers and at the same time attempting to enlarge their British markets. It will be seen that the outcome cast a dark cloud over the heads of the merchants and gave hopes to the farmer of increasing his protection from American competition. The Canada Tariff Act of 1822 levied some slight duties on wheat and flour, livestock, and other agricultural imports. The farmers of Upper Canada gained some protection from the American farmer who not only had a complete monopoly in his own country but had encroached to a considerable extent on the Lower Canadian market.[2)]

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1) *Ibid.*, p. 32.

2) Jones, R. L. *History of Agriculture in Ontario 1613-1880*, University of Toronto Press, Toronto, 1946, p. 44.

Conflicts became increasingly strong. The merchants, wishing to supply Canada with foreign goods themselves, opposed the entry of non-American goods from the United States. At the same time, to increase their own gain, they wanted American goods shipped by the St. Lawrence to be treated in England as colonial goods. The farmers, on the other hand, were unhappy because, as a result of the Corn Laws, Canadian grain was excluded from the British market when prices sank. Thus there was a double-barreled effect when prices dropped, as their profits in the home market were lowered and the unexportable surplus tended to decrease the price still further.

In 1831, the Colonial Trade Act was passed by the British Parliament. This act repealed all imperial duties on agricultural products entering the Canadas. The purpose of the act was to draw some of the grain trade of the western states through the St. Lawrence system. This act was an immediate benefit to the merchants, though the farmers objected strenuously to the inflow of American wheat and flour. The act benefited the merchants also, since American wheat when ground into flour could be exported as colonial flour. The act in this manner gave a decided lift to the St. Lawrence milling trade. It has been suggested that this act might have been intended to increase diversification of the farming in Upper Canada. The farmers, however, still preferred a wheat economy because the Canada Trade Act of 1822, although placing slight duties on American livestock entries, left the entry rate so low that the Canadian farmers could not face the competition from adjacent parts of the United States. This competition in livestock and the fluctuating character of the grain trade welded the agrarian interests in demanding protection from American produce. Lobbying was carried on consistently and aggravated the feelings between the Upper Canadian agriculturalist and the Montreal merchants. The merchants insisted upon free imports of produce to increase their own gain. The lumbering interests were in favour of free imports of American produce also, in that they wanted cheaper pork and flour as food for the large numbers of men employed in this industry. The influence here was strong as they were the chief purchasers of food-stuffs in Canada.

In 1840, a bill was passed by the legislature of Upper Canada which would have imposed duties on agricultural imports. The Colonial Office, however, disallowed the bill on the grounds that a protective tariff on grain would not increase the domestic price as the grain price was determined by the supply and demand of the world market. Again in 1842, the agriculturalists asked the imperial government for a protective tariff on American grain but were forced to wait until 1843 before a tariff on the import of grain was passed which was high enough to be called Canada's first protective tariff. The tariff levied amounted to three shillings a quarter on American wheat entering Canada. Later in the year, additional duties were imposed on American agricultural produce including livestock, meats, cheese, butter and the coarse grains.

The duties levied on the import of American livestock were an attempt to create a diversification in the agricultural production of Upper Canada. They did succeed in shutting out livestock, and made prices on livestock rise much higher in Upper Canada than in the neighbouring American states. More time was devoted to livestock by the farmers, but the large immigration of the period and the extensive canal-building operations going on in the province together provided a larger, if not sufficiently noticed, outlet than had theretofore existed.[1] These increased outlets together with the tariff created a scarcity of livestock which resulted in higher prices.

The Period Following the Abolishment of the Corn Laws.

In 1846, Britain by abolishing the corn laws destroyed the system of trade which the colonies had built up based on trade preference. The immediate consequence was a period of depression resulting both from falling markets and the gloomy pessimism which filled the minds of all those who had any interest in Canadian trade. The shipping and commercial interests of Montreal and the St. Lawrence were dealt a severe blow by the loss in trade which they had enjoyed under the preferential tariffs. The agriculturalists of Upper Canada lost a great portion of their export market to the United States while the milling industry which had sprung up along the St. Lawrence as a result of the protective tariff of 1843

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1) *Ibid.*, p. 134.

received a death blow.

Repeal of the corn laws necessitated drastic re-organization of Canadian commercial policy. The depression which resulted caused Canadians to begin to think of methods of improving their economic welfare. To improve their export position they wanted reciprocity with the United States and a repeal of the Navigation Acts. If reciprocity was not forthcoming they felt that annexation was the next best move. A policy of protection began to play an important part in the commercial life of the Canadas. In 1849, 1856, 1858, and 1859 there were upward revisions in the tariff rates. The Navigation Acts were repealed in 1849 and with them went the idea of a closed colonial empire.

With increased immigration industrial development began to take place in Canada, and with this development came a demand for industrial protection. Canadian merchants had hoped that, as a result of the imposition of higher duties, the Imperial Government might retain the preferences on colonial timbers and grains. This was not the case however, and in 1849 the preference on grain was removed. It is fairly certain in any case that the burden of the Canadian tariffs in 1847 and 1849 was largely on the Canadian consumer rather than on the British manufacturer [1] (due to the elastic supply of the manufactured goods).

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1) McDiarmid, op. cit. p. 67.

With the repeal of the corn laws, the Canadas sought to replace the markets lost to their export trade by obtaining reciprocity with the United States. Failure to obtain reciprocity immediately was one of the factors which led to the annexation movement which reached its peak in the summer of 1849. The annexationist movement and the delay in obtaining reciprocity put the case for protection in a stronger position. Agricultural and industrial protection had already been evidenced in the tariffs of 1843 and 1847. Now a third interest, the commercial group, raised their voice in a demand for protection.

The building of the first railways in the 1840-50 period caused a certain amount of interest to turn toward new industries which were beginning to develop. These industries were naturally-sheltered industries in that they depended more for protection on the high rates of transportation than on high tariffs. A few farm-machinery factories were started and an infant furniture industry made its appearance. A few textile mills began operation to supply the home market.

Canadians were still interested in reciprocity. Although there were two changes of administration during the period, reciprocity became in 1846 and remained until 1854 an object of governmental policy.[1] The provinces of Canada were in the lead in this movement because American interests

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1) Masters, D. C., The Reciprocity Treaty of 1854, Longmans, Green and Co., London, 1936, p. 8.

had already entered the Canadian field while access to the American market was denied Canadians by high tariffs. In the Maritimes, the lumbering interests of New Brunswick, which had suffered seriously as a result of the loss of British preference, were desirous of securing free access to the United States market. The Executive of New Brunswick was so desirous of reciprocity in 1849 that it was even willing to allow the entry of Americans to the inshore fisheries if that were necessary. In this it was strongly opposed by Nova Scotian fishing interests. In Prince Edward Island the legislature asked for a repeal of the Convention of 1818 so that the Americans could be allowed admittance to the Island coastal fisheries. In 1851 an attempt to gain reciprocity failed, but in 1854, by giving the Americans fishing rights in British North American coastal waters and navigation rights on the St. Lawrence and on Canadian canals, negotiations for reciprocity were successfully completed.

Reciprocity with the United States.

Reciprocity was well received by all the countries concerned. By abolishing tariffs on all important natural products on both sides of the border it created a free trade area in the northern half of the American continent within which the principle of comparative advantage could operate.[1] The treaty changed considerably the channels of trade which had already been established under the influence of tariffs.

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1) McDiarmid, op. cit., p. 72.

Grain now flowed from Canada West to the United States to be ground into flour which sometimes found its way into the Maritime provinces in exchange for fish. Pennsylvania's coal now moved northward into Canada while Maritime coal flowed south into the New England States.

The period of reciprocity was hailed in Canada as a golden age. It is true that the period of reciprocity coincided with a period of prosperity. Prosperity, unfortunately did not stop the wave of protectionism that was growing in Canada. However, during the first five years of the treaty, the policy was toward incidental protection rather than full protection.

Towards the end of 1854, duties on iron and steel, metals, rubber, wool, coradage and partially processed goods were removed. A two percent duty on meats, dairy products and flour and grain, which were already free under the treaty, was removed. It was at this time that the practice of charging a graded set of duties on a single commodity, graded according to quantity, was introduced. The next year, specific duties on whiskey, tea and spirits were increased. The general list was added to and duties were imposed on some types of steel, paper, and some wood products. This upward revision of the tariff reached its peak in 1858 and 1859 with the passing of the Cayley and Galt tariffs.

It is difficult to estimate the purpose of these higher tariffs. Cayley in 1858 stated that "the prime purpose of the tariff was to encourage domestic commerce, and to afford incidental protection to Canadian manufacturers" who were beginning to articulate strongly in favour of protection.[1] He did not believe that there would be any increase in revenue although revenue needs were great, because of the lengthened free list. It is interesting to note that the theme of protectionism by the manufacturers was the "infant industry" argument and they strongly denied any interest in protection for industries that were not adapted to Canada. They declared that low tariffs were hindering the development of the natural resources of Canada which was affecting the flow of immigrants to the country.[2]

The Galt tariff of 1859, although it indicated some response to these cries, was primarily a revenue tariff with its highest duties on luxury items rather than on manufactured goods. Galt felt that it was necessary, though, to raise the tariff on manufactured goods in order to provide revenue to aid in financing the government-sponsored railroad and canals which he pointed out would aid both the consumer and the manufacturer, in the end, by providing lower transportation costs.

Unfortunately, however, the Americans were beginning to view reciprocity as a tool which had outworn its usefulness. After the inception of the treaty, American exports to Canada increased approximately thirty per cent. The principal exports, though, were not manufactured goods but rather raw materials which were "convenience" imports. As the treaty

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1) Ibid., p. 77.

2) For a clear discussion of these arguments see, Stolper, W. F. and Samuelson, P. A., Readings in the Theory of International Trade, Blakiston Co., Toronto, 1949. pp. 333-357.

failed to provide an increased demand for American manufactured exports, and as tariff rates on manufactured goods were increased by the Cayley and Galt tariffs, American manufacturers and various government officials began to agitate for abrogation of the treaty. Political prejudice, need for revenue, and the protectionist argument caused a bill calling for abrogation of the treaty to be passed by the Senate on March 17th, 1865.

Canada immediately embarked upon an attempt to secure a new treaty but with no effect. Reciprocity was lost to Canada, in spite of strong attempts by parties on both sides of the border, to bring about its renewal, several times in the next thirty years.

The period of Reciprocity had been a period of prosperity for Canada. It is doubted, though, that prosperity was the result of reciprocity. Rather, it was a period of growth and development which would have taken place anyway, but which was aided by reciprocity. The remarkable growth of internal communications tended to expand the internal market. Investment in railroads, which poured in from Britain, increased the wealth of the colonies. External factors, in the form of the Crimean War and the American Civil War, caused both Britain and the United States to depend on Canada as a supplier of raw materials. This increased demand for materials resulted in increased prices and a rise in commerce in the colonies. The Reciprocity Treaty, however, did have the effect of increasing

Canadian-American trade, and gave a permanent north-south direction to trade. Canadian trade, which was increased by the treaty, did not decline immediately upon abrogation, but continued to maintain a high level. The most important economic effect of the treaty and its abrogation was its effect on Confederation.

The abrogation of Reciprocity left Canada floundering on the sea of commerce. Again it was necessary to consider a new commercial policy. The colonies had co-operated successfully in their attempts to obtain Reciprocity, and had again worked together in an attempt to prevent abrogation of the treaty. The principal thought then, after abrogation, was the uniting of the North American Colonies into a nation that would be strong enough to negotiate treaties with other nations. It was felt, too, that in a united national internal trade would provide a market large enough to counteract the possible effects of the loss of the American market through abrogation. The agricultural interests of Canada West, the commercial interests of Montreal, and the coal and fishing interests of the Lower Provinces, linked by a great river system and by an intercolonial railroad, could provide a commercial system which would bring prosperity to all.

Thus grew the thought of an economic union which was but the forerunner and partner of political union which gave birth on July the first, 1867, to the Dominion of Canada.

Tariff Policy of the Maritimes.

At the time of Confederation, tariffs in the Maritimes were considerably lower than those of the Canadas. They were essentially revenue tariffs. Industry in the Maritimes was small and of a local nature and there was, therefore no need or cry for protective tariffs. Shipbuilding had been a major industry, ships being built for fishing and for colonial trade as well as for sale abroad. But with the advent of steam and steel ships this industry was rapidly declining. The economy of the Maritime colonies was based primarily upon the production of a few staples for export. The fishing industry was of prime import with a large export to the British West Indies and the United States. The lumbering industry was built up on exports to the United Kingdom with some exports to the United States. Most of the imports to the Maritimes were manufactured goods imported, in the main, from Great Britain. Throughout their tariff history, revenue then was the main theme although in the 1820's there was some sentiment towards protection in Nova Scotia. But although Nova Scotia protectionists were never very successful, their fellow travellers in New Brunswick fared better. The New Brunswick tariff had begun to take on a protectionist slant as early as 1827. This tendency continued into the thirties and the forties. In 1851, New Brunswick's rate was 7½ % as compared to Nova Scotia's 6½ % and Canada's rate of 12½ %.[1)]

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1) McDiarmid, op. cit., p. 120.

Reciprocity increased the exports of the Maritimes to the United States. New Brunswick was the chief benefactor as her lumber trade was admitted to the sea-board states duty free. The United States exports to the Maritimes increased during this period of free trade but notto as great an extent as Maritime exports to her. Trade with Canada was also strengthened during this period and after the abrogation of the treaty it was only natural that the Maritimes would be drawn into an economic union with the rest of the British North American colonies.

The Maritimers, though, were essentially free traders. The general level of the tariff at Confederation ranged between ten and twelve per cent. Spirits were taxed highly and were the main source of revenue. All the Maritime provinces had raised their rates at the termination of reciprocity. The general rates had been doubled from 1851 to 1866. The purpose was not to provide protection, however, but to assist in financing public works, particularly railroads. Thus there was some opposition expressed to union with the Canadas. It was felt that the commercial policy of the Canadas if applied to the Maritimes would have a detrimental effect on the economy of the provinces.

CHAPTER II

Revenue Tariffs - 1867-1878

In Confederation, the colonies hoped to find a large internal trade which would replace the trade lost to the United States by the termination of the Reciprocity treaty. It was felt that in a united country with each province so diversified as regards to resources and industry, it would be possible for each province to act as a supplier and market to the others. By the construction of an inter-provincial railway, and by removal of inter-provincial tariffs, it was hoped that east-west trade routes would be established to replace the north-south trade routes which had been strengthened by Reciprocity.

Thus on the eve of Confederation we have the agricultural interests of Ontario, the merchants of the St. Lawrence, and the fishermen of the Maritimes about to be united into a political and economic block which the Fathers of Confederation believed would be powerful enough to gain favourable trade relations with the United States and the rest of the world.

As a concession to the Maritimes in the attempt to win them over to Confederation, the Canadas, in 1866, had lowered their tariff rates to bring them more into line with the revenue tariffs of the Maritimes. This was a distinct change from the previous policy of protection which had been established with the Cayley and Galt Tariffs. The change was explained by A. T. Galt, the Finance Minister, in his Budget Speech of that year. "The policy of this country has been to make every article of natural production imported into the province free, and for revenue purposes, to impose duties on all those manufactured articles which it was though were able to bear the burden, affording at the same time an incidental amount of protection to our own manufacturers. Now we propose to decrease the duties on the largest class of manufactured goods entering the country and to take them off altogether from those articles, which, to a great extent, enter into the manufacture of other articles in this country".[1)]

The purpose of the change was expressed more clearly in 1868 by Sir John Rose in his Budget Speech when he said, "We desire that these should be in the direction of conciliating our friends in the Maritime Provinces, and, we desire not to restrict our intercourse with the United States, at the present moment."[2)]

As a result of this change, the general list was reduced from twenty to fifteen per cent. Protective tariffs on textiles, farm machinery and metal goods were reduced, generally by five per cent. Natural products which had previously been admitted on the free list under the terms of reciprocity were again placed on the duty list.[3)]

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1) Mackintosh, W. A., Economic Background of Dominion - Provincial Relations, Appendix Three, King's Printer, Ottawa, 1939, p. 17.

2) loc., cit.

3) For a more detailed statement of the tariff changes see McDiarmid, op. cit., p. 128.

At this time the principle for the evaluation of goods for ad valorem duty purposes was very explicitly stated. "The fair market value for duty, of goods imported into this Province, shall be the fair market value of such goods in the principal markets of the country whence the same were exported directly to Canada"........This principle of valuation was carried over into the post-Confederation tariff of the Dominion.[1)]

Worthy of note also was the adoption, at this time, of an export duty on sawn logs and shingle boles. This duty was $1.00 per thousand board feet on pine and 50¢ per thousand on spruce, when destined for any market other than British North America. This tariff was levied, in retaliation, against the high American lumber tariff of 20% which went into effect in that year. Canadian lumbermen were jealous of competitors who could take home raw material to be manufactured behind a tariff wall and sold against the Canadian product in a protected market. Canadians also thought that they should have the benefits of manufacturing Canadian raw material.[2)]

Some protective duties were retained by the tariff of 1866. Sugar, soap and illuminating oils were still protected. But in general the tariff was a revenue tariff.

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1) McDiarmid, op. cit., p. 129, quoting from 29 and 30 Vict., C. 6, ~~see~~ Sec. II, Provincial.

2) Lower, A. R., et al., The North American Assault on the Canadian Forest, The Ryerson Press, Toronto, 1938, p. 154.

The first Dominion tariff, in 1867, continued the basic rates of the 1866 tariff with a few minor changes. The export duty on timber and timber products was repealed, and the duty on flour was halved. There were, however no major changes in the tariff until 1870. During this early period of confederation protectionist interest waned. It was felt that reciprocity with the United States could still be regained and nothing that would interfere with negotiations was to be permitted. In the early tariffs Canada held out offers for reciprocity in fish, lumber, grains and animals to the United States but to no avail.

In 1870, Canadians obtained a preview of what was to happen in the near future, when, in that year Sir John A. McDonald attempted to introduce a National Policy tariff. Duties were increased by five per cent of the value of the goods. New duties were placed on coal, salt, flour, meal, wheat and hops, which previous to this had been on the free list.

A duty of fifty cents a ton was placed on coal and coke, the idea being that the duty would either cause repeal by the United States of their tariff on coal, or else would extend the market of Nova Scotian coal west of Montreal. Similarly a duty of five cents a bushel was levied on salt as a retaliatory duty against the United States. The tariff was also intended to provide protection to agriculture by its duty of twenty-five cents a barrel on flour, and by its duties on cereals. Again, retaliation was one of the prime purposes, but it was also felt that this tariff would provide a return cargo for those steamers bringing coal from the Maritimes to Montreal.

As a retaliatory measure, the Act of 1870 was a failure.[1] The United States was not influenced, by these harassing duties, towards a return to reciprocity. The Act failed to arouse any public sentiment in Canada towards a national policy, and in the following year the act was repealed. Canadian consumers did not take kindly to increased coal and flour bills. The government was obliged by popular demand to remove the duties on grain and flour, and a petition from the Montreal Corn Exchange urged "the propriety of throwing off the duties on the necessaries of life in order to render this country a cheaper one to line in".[2]

Canada was just beginning, at the time of Confederation, to enter the industrial age, and during the following decade industrialization, as a result of natural growth, increased to such an extent, that by 1878 the manufacturing and industrial interests began to carry weight in Canadian politics. Agitation for protective tariffs had begun in the 1840's but had waned with prosperity and was further stilled by attempts to regain reciprocity with the United States. During this period, Canada's exports to the United States had exceeded

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1) Porritt, E., Sixty Years of Protection In Canada, McMillan and Co. London, 1908, p. 271.

2) Chomley, C. H., Protection In Canada and Australasia, King and Son, London, 1904, p. 24.

her imports from that country. Prosperity due to increased immigration, reciprocity, and the demands of the Civil War had tended to still all desires for protection. But with the depression of 1873, and the failure of attempts to gain reciprocity in that year, Canada began to move towards a policy of higher tariff.

By 1874 it was necessary to increase the rate on the general list of 17½ % because of revenue difficulties. The ten per cent list was lengthened by adding items which had previously been on the free list. Duties on tea and coffee of 3 and 4 cents and 2 and 3 cents were re-imposed. A five per cent duty was placed on iron and steel. These changes tended to raise the average rate of the duty to twenty and a half per cent. There was no attempt, however, to levy any protection tariffs to favour any particular group, in spite of the demands for protection for labour and industry which had been made. These rates remained substantially the same until 1878. The economic philosophy was that of laissez-faire in commercial policy, though fiscal necessities made its practical realization impossible.[1)]

Although Canada had made some progress towards industrialization, the industries were of such a type that with slight exception they were in no need of protection by tariff. In the majority of cases the industry was of a small, naturally-sheltered type. In the case of bulk

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1) McDiarmid, op. cit., p. 143.

machinery manufacture, the high transportation costs provided the necessary protection. But as a result of the depression of 1873 there was a clamour for protection. The manufacturers were hard hit, with the milling industry and the boot and shoe industry suffering the most. Canadian manufacturers wanted unrestricted reciprocity with the United States. They felt that with their cheap labour, due to unrestricted immigration, and raw materials they could compete with the rest of the world. But if reciprocity was not available, they demanded high protection tariffs to counter the barriers which had been raised against them by the United States. Most of the popular support for protection stemmed from this desire to use protection as a weapon with which to battle the high protective tariffs of the United States.

In 1876, the Conservative party adopted a protectionist policy for Canada as their platform. The Liberal party stood by a laissez-faire policy. The manufacturers of Ontario had united into a Manufacturers' Association of Ontario, and gave strong support to the Conservative campaign. In 1877 the Dominion Board Trade adopted a motion in favour of protection.

Arguments for protection were numerous. It was stated that American industry had been founded and fostered by protection tariffs. Why should Canada not follow the same pattern? The "infant industry" argument and the "diversification of employment" argument were both used succesfully. The manufacturers believed that they would be able to export to better advantage if the home market were reserved for them.

Whether Canada, which was so sparsely settled and so slightly industrialized, could withstand the strain of commercial isolation or not was probably never argued strongly.[1] The substance of the arguments may best be summed up in the words of a resolution submitted by Sir John Macdonald to the House of Commons in 1878. It read,

> This house is of the opinion that the welfare of Canada requires the adoption of a National Policy, which by a judicious readjustment of the tariff, will benefit and foster the agricultural, the mining, the manufacturing, and other interests of the Dominion; that such a policy will retain in Canada thousands of our fellow-countrymen who are now obliged to expatriate themselves in search of the employment denied them at home; will restore prosperity to our struggling industries now so sadly depressed; will prevent Canada from being made a sacrifice market; will encourage and develop an active inter-provincial trade; and moving, as it ought to do, in the direction of a reciprocity of tariffs with our neighbours, so far as the varied interests of Canada may demand, will greatly tend to procure for this country eventually a reciprocity of trade.[2]

With these arguments for protection and a slogan of national policy the Conservatives swept to power under the leadership of Sir John A. Macdonald, and in 1879 set in force a program of high protection under the name of National Policy.

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1) For a clear study of the arguments used against protection see Porritt, op. cit., pp. 335-6.

2) Annett, D. R., British Preference in Canadian Commercial Policy, Ryerson Press, Toronto, 1948, p. 17 quoting Canada, House of Commons Debates, 1878, p. 854.

CHAPTER III

The First National Policy

1879-1896

The Tariff Schedule.

As has been pointed out in the previous chapter the protection tariffs introduced in 1879 were the result of pressures brought about to further Canadian industrialization for a Canadian market and not for a North American market. The resulting tariff gave widespread protection, not only to the advantage of the manufacturer but to that of the agriculturalist as well. It was stated by the Conservatives that the National Policy would produce a balanced economy by giving the farmer a market at home as well as abroad. And yet it was the manufacturers who participated in and claimed the credit for drafting the tariff schedule.

With the introduction of the National Policy the Canadian tariff form was completely altered. It still carried the provision that if the United States removed her tariffs on agricultural products and other raw materials that Canada would reciprocate. The Act still retained an extensive free list and those goods which were essential to the development of Canadian industry were admitted duty-free. Aside from these characteristics the new tariff was completely changed in form. The previous method of charging ad valorem rates was changed to a system using both specific and ad valorem duties. This system was used in the more highly protected schedules and was used with the purpose of upholding revenues in times of falling prices.

The simple schedules arranged in five and ten per cent steps were replaced by a complicated classification of rates according to the degree of processing. It is, therefore, difficult to offer in this work a complete schedule of the tariff.[1] The general list was increased from seventeen and a half to twenty per cent. The most important increases affected those industries for which competing imports had been large, cotton and woollen textiles, and iron and steel products.[2]

The coal industry, which at that time was concentrated in the Maritimes, received preference in that a fifty cent per ton duty (increased to sixty in the following year) was placed on coal and coke. The iron and steel industry received protection which was increased in the later years of the policy. A duty of $2.00 per ton was levied on pig and scrap iron; rolled iron was taxed at 17½% while forgings were admitted at twenty per cent. Steel ingots, which were not produced in Canada to any extent, were admitted free for the time being. The duty on other iron products ranged from ten to seventeen and a half per cent. Machinery manufactured, or which could be manufactured, in Canada was subject to a duty of 25% while other machinery was admitted free. Agricultural implements were moved up to the twenty-five per cent classification.

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1) For a more detailed study of the schedule see McDiarmid, op. cit., pp. 161-163; also Mackintosh, op. cit., p. 19.

2) Mackintosh, op. cit., p. 19.

Protection to the farmer was provided by a duty of ten cents per bushel on oats and fifteen cents on wheat and barley. Flour was dutiable at the rate of fifty cents per barrel. Cattle were admitted under a twenty per cent duty and, in order to aid the dairy industry, butter was charged at the rate of four cents a pound. Under the new tariff, the duties on cotton textile goods ranged from twenty to thirty-four point four per cent. Manufactured cotton goods were taxed at thirty per cent; the ratio on woollens was thirty one per cent while silk piece goods were dutiable at thirty per cent.

The protection which was established by the tariff of 1879 was maximized in the next decade as the rates were increased along with industrial expansion. In 1881, manufactured products, or natural goods imported into Canada for use in Canadian manufacturing industries, could be placed on the free list by order - in - council. An increase of five per cent on a few commodities was imposed in 1882 while the duty on scrap iron was reduced to $1.00. The following years saw slight changes in the tariff, each change designed to make the tariff more protective than before. In 1883, the tariff on farm machinery was increased to thirty-five per cent. Steel ingots, which had previously been on the free list, were now dutiable at five dollars per ton. In the following year, steel beams and plates used in ship-building were placed on the free list in order to aid the Maritime ship-building industry. In 1884, in order to strike a blow at American sugar refiners, a two and a half per cent differential was granted on sugar imported into Canada directly from the country of origin. As a further protection to Canadian manufacturers, foreign-made parts which were not on the duty list were charged in proportion to their value in the finished product.

By 1884 the general rate had reached an all-time high of approximately twenty-five per cent. The peak, however, had not been reached. Throughout this whole period of National Policy manufacturers who wielded any political influence at all were usually granted all the protection they desired.

In 1885 the government was faced with a deficit as a result of the difficulties arising from the depression of 1883. In order to meet the deficit, the duty was increased on tobaccos, spirits, and other commodities of a luxury nature.

With further concession to the iron and steel industry the farm machinery industry and the textile manufacturers in 1887, the tariff reached its highest level with a general rate of approximately thirty per cent. From that year onward there was a gradual decrease in the level of the tariff.

A trend towards tariff modification appeared in 1890. Ad valorem rates began to take preference over specific rates. Protection duties placed on some articles, in the hope that they would be manufactured in Canada, were removed when it appeared that the industry could not be fostered. But protection for the security of established industries on the domestic market was still ensured. Protection policy now seemed to be for the "security of vested interests" rather than for "infant industry" protection.[1] The rates on woollens were increased by two and a half cents per pound in that year, while in the following year the duty on flour was raised from fifty to seventy-five cents. The sugar refining industry in 1891 also received encouragement when the duty on raw sugar imported directly was removed. The Canadian sugar beet industry was aided, however, by a bounty of $1.00 per hundred pounds.

By 1894 the agrarian interests had welded themselves together to exert a political pressure that could be felt over the protectionist influence of the manufacturers. As as result there was a reduction in tariffs on farm machinery, iron and steel products, and cotton textiles. The duty on the main group of farm machines was reduced from 35 to 20 per cent.[2] These were the last changes in the series of protective tariffs under the National Policy. But by this time an effective tariff barrier, reinforced by protective administrative features, had been erected.

<u>General Economic Effects</u>.

It is difficult to ascertain the value of the protective tariffs of the National Policy. True, statistics indicate that during the period industry gained a firm foot-

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1) McDiarmid, <u>Commercial Policy</u>, p. 175.

2) <u>Ibid</u>, p. 178.

hold in Canada. Trade expanded during the period. Immigration increased the population, and the frontier was pushed back to include the great grain-growing area of the West. But too many factors are involved to make possible an estimate of the effects which were actually a result of the National Policy and those which were caused by other factors.

The years preceding the National Policy had been a period of hardship to Canadians. There had been, throughout the world, a commercial depression which had forced the Liberals in 1875 to increase the revenue tariff in order to meet a budgetary deficit. But this revenue tariff with its high rate, falling upon the poorer classes, tended to arouse a clamour for protection. Everywhere there was dissatisfaction with the revenue tariff and demands for protective duties to eliminate American inroads into Canadian home commerce. But by the time protection was introduced the worst effects of the depression had disappeared and the world was well on the road to recovery. Cheaper transportation costs, the falling prices of manufactured imports, poor crops in Britain and abundant crops in Canada, all helped to make the balance of trade favourable to Canada. Therefore for the first period there was no strong criticism levelled against the policy, although as the price level rose the impact of the new duties was great. After 1883 falling prices mitigated the effects of the tariff except in those cases where specific duties applied. Deflationary secular forces created economic conditions in which the new policy was severely tested. Falling world prices tended to cut off external markets and cause a shrinking of the home market. An indication of the price decline may be gathered from Table 1.

Table 1.

Canadian Price Indexes, 1871-1896

	Wholesale Price of 70 Commodities	Exports	Imports	Grains and Flour	Animals and Meats	Iron
1871-73	100	100	100	100	100	100
1885	79	91	73	93	90	61
1891-93	78	97	69	83	94	53
1896	65	86	60	62	68	48

1873-75 = 100
Source: Report on Dominion-Provincial Relations, I. p. 52.

Coupled with falling world prices was the lack of population growth in Canada. Although the government made strong attempts to induce immigration, in the main the effort was unsuccessful. In spite of the opening of the West and the completion of the Canadian Pacific Railway in 1885, the rate of population growth dropped from 17 per cent in the period 1871-81 to 11.7 in the period 1881-91. It is possible that this slowness of growth was due in part to the high tariff in force, which, by decreasing the prosperity and therefore retarding the growth of the basic industries, retarded, in like manner, the growth of the whole country.[1] Thus falling prices and the stagnation of the East tended to restrict outlets for domestic industry and impaired the possibility of the National Policy becoming an agent of prosperity.

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1) Drury, E. C., Forts of Folly, Ryerson Press, Toronto, 1932, p. 89.

The chief beneficiaries of the protection tariffs which were levied under the National Policy were the manufacturing industries, in particular the iron and steel, farm machinery, and textile industries.

The Iron and Steel Industry:

When the national policy was first introduced, the government expected a great development in the iron and steel industry. It was anticipated that the iron industry would spring up all over the country. It was hoped that Canada's natural resources would be developed and that iron would be worked in every province. Concomitant with this expectation was the anticipation that the coal production of the country would be greatly stimulated and taxed to its limits. With this in mind, the government abolished the duty on anthracite coal in 1887, in order to check ore exports to the United States and to further the iron industry in Ontario.

Protection was expected also to be a benefit to the labouring class. The tariff of 1887, based on the American iron and steel schedule, gave protection in proportion to the amount of labour involved in production, least protection on raw materials, more on intermediate products and most on finished articles.[1] The growth of the industry was expected to provide an increased market for labour in all phases of production.

The government also explained the need for encouraging

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1) Donald, W. J. A., The Canadian Iron and Steel Industry, Houghton Mifflin Co., New York, 1915, p. 92.

the industry because of the heavy initial expenditures required in prospecting, development of the mines and construction of plants. It was pointed out that the iron and steel industries in both Great Britain and the United States were developed under high protective tariffs.

In 1879, there was only one plant producing in Canada and that was at Londonderry, Nova Scotia. This plant took advantage of the duty, of shipping charges, and of the cost of insurance on foreign iron; the price of its product was approximately $2.00 per ton more than the price of iron in England. When bar iron at Philadelphia was sold for a little over a dollar per hundred weight in 1885, it was quoted as over two dollars in Montreal.[1] Thus to the benefit of the Canadian industry, but to the detriment of the consumer, prices were maintained at a higher level than in other countries.

As a result of the increase in producing plants because of the tariff,[2] price-cutting became evident in the marketing of the finished product. To prevent this out-throat competition organizations of producers sprang up to keep prices uniform. The tariff thus was responsible to a certain degree for the combination and price fixing which arose in the industry. A great source of complaint against the iron and steel companies came from these manufacturers who used iron and steel in their products. They claimed that the high costs of steel and iron increased the price of their finished products to such a degree

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1) Ibid, p. 95.

2) An increase from one plant in 1879 to 29 plants in 1891.

that the demand for their product fell off. The manufacturers of agricultural implements, the most important producers of finished products, complained that the rolling mills had prospered under the protection of a thirty-five per cent tariff until, becoming too extensive for the consuming capacity of the country, they had failed and been forced into combinations.[1)]

The duties on iron and steel, then, did not eliminate all the difficulties that had prevailed at the introduction of the National Policy. All phases of the industry demanded and continued to demand protection. The impact of the duties on the finished product fell upon the consumer while the impact of the duty on secondary products fell on the consuming manufacturers. In turn the rolling-mill interests opposed increased duty on scrap and pig iron as they received the impact of these duties. The bounty system was introduced to eliminate some of these difficulties. In 1883 a bounty was given on pig iron made from Canadian ore. Again in 1894 when the duty on puddled iron was reduced, under pressure, from $9.00 to $5.00 a ton, a bounty on this product was granted to offset the reduction. In spite of this bounty it was still necessary to import half the pig iron used.

It is difficult to determine the exact effect of the tariff and bounty systems on the industry during the period. Much of the growth of the industry can be attributed to the increased demand for the product, to the growth of corporate

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1) Ibid, p. 99.

business and to the ability of the finishing stages industry to operate on a small local scale. The tariff did provide a stimulus in several cases. The Annapolis Iron Company put its furnaces in operation following the granting of bounties on puddled bars and the increase of duties on scrap iron.[1)] Protection seemed to encourage the finishing industry more than the primary and secondary industry. In some cases protection was so high that, as already pointed out, over-production resulted in combines and price fixing. The secondary industry expanded because of the cheapness of raw materials. The primary industry in most cases started because of natural advantages or technical conditions that favoured its growth rather than as a result of protection. The policy of protection, then, was probably a mistake. The incidence of the tariff on the finished product fell on the consumer and resulted in much inequality and injustice. As we have pointed out, protection did not lead to development of the primary industry as was anticipated.

The Textile Industry:

The development of the textile industry has taken place as a result of the shift from domestic to factory production and the encouragement of manufacturing under the Protective Tariff.[2)]

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1) *Ibid*, p. 124.

2) *Report of the Royal Commission on the Textile Industry*, Ottawa, King's Printer, 1938, p. 31.

Cotton manufacturing in Canada had commenced in 1844. Growth of the industry was slow, however, until the American Civil War initiated a boom era. By 1865 five mills were operating with a total capacity of 40,000 spindles. Expansion of the industry ceased temporarily with the termination of hostilities but by 1871 there were nine mills in Canada. With the establishment of the National Policy the industry rapidly developed. Between 1878 and 1885 seventeen cotton mills were established.[1] The most rapid growth, relatively, took place in the Maritimes, but the greatest absolute growth occurred in Quebec. The expansion during the early eighties was more than sufficient to meet the domestic demand. As a result, the industry could not operate at full capacity. The over-capacity was relieved somewhat by the establishment of a print industry in 1884, and later when the Canadian Pacific Railway was completed exports were made to China which further encouraged the industry. This export trade was carried on in the face of British and American competition until an increasing domestic demand in the early twentieth century led to its abandonment.

In 1887 a price fixing association was formed called the Dominion Cotton Manufacturers' Association. The group consisted of all the mills in the country with one exception. In 1890, steps were taken to merge a number of the mills under one company. In 1892 a similar merger took place with

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1) Ibid, p. 33.

the result that by that year nineteen of the twenty-six cotton mills in Canada were united in two large companies. The amalgamation seems to have been intended to bring the mills producing similar lines under one control. There is no doubt that these mergers created such control over production that prices could be adjusted to please the owners. Retrenchment and the closing down of some of the smaller firms increased the hold of these two combinations over the industry. That the industry benefited by the protective tariff can be ascertained in that imports of raw cotton rose from 11,479,000 pounds in 1879 to 34,550,000 pounds by 1890. The tariff for the industry rose from seventeen and a half per cent in 1878 to a high of approximately thirty two and a half per cent in 1887.

The Woollen Industry started in Canada as a domestic handicraft industry and remained so until well into the nineteenth century. The growth of the factory system began around 1850 and received a strong stimulus when, upon the abrogation of reciprocity, the United States placed a high tariff on imported raw wool. "With the inauguration of the National Policy, came the development of larger mills and the gradual disappearance of the customs carding and fulling mills and the custom weaving and small one-set mills."[1] From 1870 to 1890 the number of firms increased by 107 with an increase in the value of production of $1,710,000. During the period of the National Policy the tariff increased from 17½ to 30-35%.

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1) <u>Ibid</u>, p. 42.

The Knit Goods industry was stimulated by the protective tariff. The industry expanded to over-capacity but was saved by the opening of a market in the North West. The protective tariff had the effect of stopping importation altogether in this field.

All the branches of the industry appear to have received a stimulus under protection. The woollen industry reached its peak in the last five years of the policy while the knit goods industry attained its maturity. We can then conclude that the National Policy had provided a strong impetus to the growth of the textile industry.

The Farm Machinery Industry:

The farm-machinery industry was already well established by the time the National Policy was put into effect. Under the protective tariff expansion of the industry took place, to be followed later by mergers and combinations. Although there was an increase in capital investment and labour in the industry, the production increased at a greater rate as a result of greater efficiency and technological improvements. Capitalization increased by about 90%, the number of labourers by 87%, and the value of product by 106% between 1879 and 1885.[1)]

In Ontario and Quebec, the local manufacturers monopolized the market, but in the west, until the Canadian Pacific Railway was completed, there was stiff competition from

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1) McDiarmid, op. cit., p. 194.

American producers. Imports rose to a peak in 1885 but declined from that date to 1890 when there was an upward trend resulting from imports of machinery considered impractical to manufacture in Canada.

The distance of the manufacturing plants from the western market, coupled with the drawback features of the tariff, caused the manufacturers to build up their export trade. In 1890 about five per cent of the gross output of the industry was being exported and for the first time the Dominion had an active trade balance.[1)]

Canadian manufacture of farm machinery was stimulated by the tariff. During the period of the National Policy there was a downward trend of prices in the industry as a result of mechanical improvements, increased production, and stiff competition. It is doubtful, had there been no tariffs, that Canadian manufacturers could have competed successfully with American manufacturers. It is true, that the tariff did keep Canadian prices slightly higher than American. This was a heavier burden to the Western farmer who imported his machinery then it was to the Ontario farmer who, being near the Canadian manufacturer, could make his purchases at a lower cost.

<u>The Lumber Industry</u>:

Under the National Policy, the battle for the treasure of the Canadian pine forests, which were the most important wood of that time, waged for a generation between Canadian

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1) <u>Ibid</u>, p. 197.

and American lumbermen, was fought with the familiar weapons of the tariff - import and export duties.[1]

On abrogation of the reciprocity treaty there was, contrary to expectations, an increase in lumber exports to the United States. The year 1866 saw a decrease in trade as a result of the twenty per cent American duty levied on imports and the Canadian export duties mentioned in the previous chapter. American demand after the war was strong enough to overcome the twenty per cent duty, and trade was brisk and increasing until the depression of 1873. In 1870 the United States put saw-logs on the free list, one of the first indications of dependence on raw material from abroad, and in 1872 changed the ad valorem duty on lumber to a specific duty of two dollars per thousand. The effect of the change was to bar entrance to the poorer grades of lumber, perhaps no bad thing for Canadian forests.[2] Lumber shipments from Ontario and Quebec to the United States increased from $5,500,000 in 1868-69 to $9,500,000 in 1872-73.[3]

The lumber trade was one of the first sufferers from the depression of 1873, as a result of the contraction of construction work in the United States. With prosperity returning at the time of the National Policy, American demand for lumber was restored and trade improved again. Canada in

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1) Lower, <u>Assault on the Canadian Forest</u>, p. 148.

2) <u>Ibid</u>, p. 148.

3) <u>Ibid</u>, p. 150, quoting R. S. White, <u>General Review of the Trade of Montreal</u>, Montreal, 1878, p. 28.

1886 increased her export duty to $2.00 per thousand board feet. As a result of this duty, several American firms began sawing in Canada in preference to having the Canadian logs floated to mills in Michigan to be sawn there. In 1888 the export duty was increased to $3.00 but in the following year it was reduced to $2.00 again in the hopes that arbitration would bring about a reduction in the American tariff. These hopes were realized in 1890 when the American duty was reduced to one dollar. At this time the Canadian export duty was removed.

A decline in the industry became evident in 1891 and continued for several years. Although blamed by the lumbermen on the removal of the export duty, the decline was rather a reflection of the general state of the times.

In 1894 the United States removed the remaining tariff and free trade in lumber prevailed until 1897. This free trade, however, did not bring about an increased trade because of depressed conditions in the United States.

The National Policy did not have a great effect on the lumbering industry. Although the industry reached its peak in this period, its phenomenal growth is attributed to increased demand for lumber for construction purposes, and to better transportation as a result of the construction of railroads and canals.

The export duties levied were successful in that they brought about a reduction in the American import tariff. It appears, however, that the lumbering industry is more dependent on world conditions and the general level of prosperity in the importing country than upon tariffs.

Agriculture:

Agriculturalists were the first group to demand protective tariffs in Canada. In 1843 they petitioned successfully for a tariff to protect them from American farmers who were selling their produce in Canada. In 1873 the farmers were still in accord with a protectionist policy; in that year they urged direct agricultural protection, the imposition of protective duties on farm produce to match the increased duties advocated by Conservatives for manufactured goods.[1] With the introduction of the National Policy, some protection was provided to the farmer in the way of duty on wheat and other grains. The tariff, however, was not enough either to prevent or to provide a cure for the farmer's suffering in the depression of the early eighties. The agriculturalists realized that they did not have much to gain under a policy of protection. When the supply of grain is less than the demand the people naturally complain of the high price; but when there is an exportable surplus, the world price determines the amount that the farmer will receive. Thus protection is useless to the farmer, at such times. When the farm interests realized this they united together

1) Fowke, V. C., Canadian Agricultural Policy. University of Toronto Press, Toronto, 1946, p. 260.

in Grange movements and petitioned for reductions in the tariff as they were gaining nothing from the tariff except increased prices paid for manufactured goods. They sought the removal of duties on farm machinery, coal oil, fencing, and other essentials of farming.

In the West, the farmers were interested only in the foreign markets and so were not attracted by the appeal of a National Policy. It was the Western farm interests united with Maritime free trade interests who brought the Liberals back to power in 1896 in hopes of a policy of tariff for revenue only.

Attempts At Reciprocity and Commercial Union:

The Conservatives, in adopting the National Policy, still had hopes of reciprocity with the United States. As has been pointed out before, in the tariff of 1879, certain articles were listed which would be admitted duty-free by the Dominion if the Americans would admit the same articles duty-free to the United States. During the period of National Policy several invitations were extended to the United States to engage in reciprocity talks, but from these no return to free trade resulted. In 1883, the United States offered to admit certain raw materials free if Canada would reciprocate but the proposal was turned down because the list did not contain all the articles enumerated in the list provided in the tariff of 1879. Negotiations were continued, and in 1886 Sir Charles Tupper offered reciprocity in any articles acceptable to both countries; but he found that Americans would not barter fishing privileges for reciprocity.[1] The fisheries controversy created much friction which resulted in failure of proposals for reciprocity in both 1886 and 1887.

As reciprocity attempts met with continual failure a new trend of thought became evident in certain circles in both countries. As an alternative to reciprocity, commercial union of the two countries was suggested. The idea was implanted in groups of government officials in both countries. Ontario and Maritime farmers adopted it as a method of breaking the high tariffs which were burdening them. The movement gained strength in the middle eighties but in 1888 a resolution asking the President to consider commercial union or reciprocity was defeated in the Senate. In the Canadian elections of 1887 the tariff was not made an issue.

The agitation towards a commercial union was gradually replaced by a demand for reciprocity. Nova Scotia was full of secessionists because of the high tariff, and all the provinces were dissatisfied with the Dominion financial policy.[2] In 1888 and 1889 the Liberals made official motions for unrestricted reciprocity. They pointed out the economic distress and heavy taxation in Canada. They claimed that the high tariff was causing mass emigration to the United States. Arguments for reciprocity pointed out that only a few interests were benefited

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1) McDiarmid, _op. cit._, p. 167, quoting Macdonald Papers, _Washington Treaty, 1888_, I, Negotiations of 1874-88, pp. 259-260.

2) _Report on Dominion Provincial_ Relations, Volume 1, p. 55.

by the National Policy. The Conservatives pointed out that reciprocity would make the north-south trade routes stronger and that Britain would be the loser of much trade to the United States. The election of 1891 was fought on the reciprocity vs. tariff grounds. The Conservatives managed to retain power through the backing of the Canadian Manufacturers' Association and the Canadian Pacific Railway. From then on, the administrations in both countries opposing reciprocity as they did, all efforts towards that end were doomed to failure. Although attempts were made in 1892 and 1893 nothing came of them, and by 1896 interest in reciprocity had died away.

Under the National Policy there was considerable expansion in Canadian industry. That the protective tariff influenced this expansion is not doubted. During the period there was a shift from small firms to larger industrial organizations. Without protection it is possible that these smaller firms would have been overrun and absorbed by their larger American counterparts which had grown rapidly under protection.

The years of the National Policy were years of secular stagnation introduced by a few years of prosperity. Depression and poor crops caused a migration from the farm to the urban areas and to the United States at the same time restricting immigration to the country. Exports fell during the period and it was not until 1897 that the volume of exports per capita reached the 1873 level.[1] Dissatisfaction with the policy grew with the increase in protection and the consequent rise in prices of manufactured goods. In 1896 the popular vote went against the Conservatives and they were swept from power by the Liberals with a policy of "tariff for revenue only."

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1) Royal Commission on Dominion-Provincial Relations Report, King's Printer, Ottawa, 1939, Book I, p. 53.

CHAPTER IV

The Second National Policy

1896-1911

During the years of the National Policy under the Conservatives, opposition to the protective tariff had steadily increased. At the introduction of the policy in 1879, the farmers and Maritimers had accepted it as a possible method of improving their economic status. The deflationary secular trend which had been in operation since 1873, however, created economic conditions which provided the Opposition with strong ammunition for their attacks on the protective tariff. Falling prices retarded trade both international and domestic. The falling prices of agricultural products created dissatisfaction among the agrarian groups. With falling prices, farmers were called upon to pay more for goods manufactured in the shelter of the tariff. It was only logical then that opposition to the tariff should increase. The Dominion Grange movement which had appeared in 1872 and the Order of the Patrons of Industry, founded in 1890, united the farmers in a protest against the protective tariff policy. The Patrons of Industry advocated a tariff policy of "tariff for revenue only", and reciprocal trade between Canada and other countries.

In 1893, the Liberals adopted this "tariff for revenue only" policy as their platform. They gathered to their side all those who were discontent with the national policy and in the elections of 1896 seized power from the Conservatives.

Upon their ascension to power, however, the Liberals made no immediate attempts to tear down the tariff wall that had been built up under the Conservative regime. They said that no administration was justified in taking the risk of sweeping changes in the tariff which might result in the dislocation of industry and the consequent increase in unemployment.[1] They argued that too rapid a removal of the tariff would tend to disrupt completely the economic life of the Dominion. The Liberals were also confronted with a high barrier to North American trade which the United States raised in 1897 in the form of the Dingley tariff. This spirited protection on the part of the Americans caused the Liberals to think twice about dropping Canada's protective tariff. Before presenting the budget the Liberals held hearings to weigh the case for protection. In these hearings, as in those held previously, the more experienced industrialists presented the stronger case and protection remained the theme of the tariff. As a result of the hearings, the tariff of 1897 brought about a reduction in the duties on pig iron from $4.00 to $2.50 a ton and on scrap iron from $3.00 to $1.00 a ton. Steel ingots, blooms, slabs, puddled bars and billets gained a lower duty of $2.00 a ton.[2] While reducing the tariff on these iron and steel goods, in order to lower costs of

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1) Porritt, Sixty Years, p. 385.

2) McDiarmid, Commercial Policy, p. 206.

production, the Liberals increased the bounty system which had been introduced in 1883 to uphold the protection which the manufacturers had been receiving. Pig iron made from domestic and imported ore was subsidized by $3.00 and $2.00 a ton. The existing bounties on puddled bars, steel billets and ingots were increased to $3.00 a ton. Duties on forgings were increased from twenty to thirty per cent while a reduction was made on the duty on angles, plates and steel bars from ten to seven dollars. Machinery for mining and for industrial production was duty free but the impost on other machinery was increased from twenty to thirty per cent.

Because of high production of woollen and worsted cloth in the grey, the duty on this material was reduced from 30 to 25 per cent. The duty on yarns imported by weavers was reduced from 27½ to 20 per cent. To afford more protection to the manufacturers of finished cloths the duty on this material was increased from 30 to 35 per cent.

In spite of the demands of agrarian groups, the duty on farm machinery was left at the 1894 level of twenty per cent. Duties on farm tools, however, were reduced from 35 to 25 per cent. Barbed wire and binder twine were placed on the free list. It was hoped that agrarian discontent would be pacified by the duties placed on agricultural products. A levy of 12¢ a bushel was placed on wheat while oats was dutiable at ten cents. Wheat flour was taxed at sixty cents a barrel, butter at four cents a pound and live cattle at twenty per cent. These duties were almost identical to the duties levied in 1879 which, as we have seen, proved of no benefit to the Canadian farmer.

Much criticism had been levelled at the first National Policy because of the contribution its protective tariff had made towards the creation of monopolies, trusts and combinations. The Liberals hoped to counteract this by placing in the tariff a clause stating that if any good were to be sold under monopolistic competition it could be immediately placed on the free list by the Governor - in - Council. But, although this clause was placed in the tariff, no enforcement officer was appointed and only one case was tried in ten years.[1)]

The tariff of 1897 was the first tariff, since the abrogation of Reciprocity, that did not contain a clause containing the usual invitation to reciprocal trade. Canada at last felt that she could be independent of the United States in her commercial policy. In a spirit of indifference towards the American market and in an attempt to give leadership to a plan to provide reduced rates of tariff to other countries of the Empire, Canada included the following statutory provision in the tariff:

> "Where the customs tariff of any country admits the products of Canada on terms which, on the whole, are as favourable to Canada as the terms of the reciprocal tariff herein referred to are to the countries to which it may apply, articles which

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1) Porritt, Ibid, p. 343-353.

> are the growth, produce or manufacture of such countries, when imported direct therefrom, may by entered for duty or taken out of warehouse for consumption in Canada, at the reduced rates of duty provided in the reciprocal tariff set forth in schedule "D", to this Act".1)

The reductions in duties under the preference amounted to one-eighth, and, after July, 1898, one quarter of the general tariff. Great Britain was immediately accorded this most favourable treatment. The Liberals hoped by this two-fold schedule to provide Canada with protection against the rising American tariff and at the same time to satisfy the demands for reciprocity. It was further hoped that greater trade with the United Kingdom would strengthen the east-west trade routes and give support to the Dominion trans-continental transportation systems.

While Britain was granted the new reduced rate unconditionally, the rate applied to other countries only if they extended to Canada equally favourable terms. In the first year of its existence the preference was extended to Belgium, Germany, and several other European, South American and Asiatic countries. Britain was bound by treaty to Germany and Belgium in such a manner that these countries had the right to demand benefits of reduced tariffs granted by any part of the Empire to another. These treaties, contracted in the 1860's provided a barrier to any plans for an Empire trading schedule. Canada's desire to have these treaties

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1) Annett, British Preference, p. 32 quoting 60-1 Vict., c.16.

denounced resulted in pressure being brought to bear against the Foreign Office by the Colonial Conference of 1897. The treaties were repealed the following year. Upon repeal of these treaties by Britain, Canada immediately withdrew the reciprocal trade clause from the schedule leaving a British preferential schedule with rates one quarter below the general tariff. In 1900 the preference was increased to one third of the general rates.

As a result of the denunciation by Britain of her trade treaties with Germany and Belgium in 1898, the German government resentfully levied its maximum duties on Canadian imports. Germany felt that Canada was not willing to grant to her "favoured nation treatment". "Canada", the Honourable W. S. Fielding stated, "was willing to give her every consideration that we give to any foreign government, but she took offence because we did not treat her as we did the United Kingdom".[1] In spite of these clarifying statements, Germany refused to lower her duties and in 1903 Canada retaliated. A surtax of one-third of existing duties was levied on all imports from Germany. This trade war lasted until March, 1910 when Germany again admitted Canadian imports under the minimum tariff while Canada placed Germany on her "most favoured nation" schedule. During the trade war Canadian imports from Germany were cut from over twelve million dollars to six million, while

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1) McGill University Economic Studies, Reciprocal and Preferential Tariffs, MacMillan Co. Ltd., Toronto, 1925, p. 11.

her exports to that country remained at approximately one and a half million dollars over the period.

In 1904 some increases were made in the protective tariff. Woollen manufacturers who had never had to face American competition were faced under the British preference schedule with stiff competition from British manufacturers of woollen goods. It was claimed that one third of the woollen manufactures of the country had been replaced by imported articles.[1] The government, under pressure from the Canadian Manufacturers' Association, imposed a minimum duty on British woollens. Twine and cordage, china tableware and glass were also given minimum duties in this revision.

In line with its policy of protecting the vested interests of manufacturers already established, the Liberal Government in 1904 embodied in the tariff act of that year a clause to prevent the dumping of surpluses of foreign goods in Canada at prices below the fair market value. The clause read:

> Whenever it appears to the satisfaction of the Minister of Customs.... that the export price or the actual selling price to the importer in Canada of any imported dutiable article of a class or kind made or produced in Canada is less than the fair market value thereof.... such article shall, in addition to the duty.... be subject to a special duty of customs equal to the difference between such fair market value and such selling price....[2]

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1) Porritt, op. cit., p. 396.

2) McDiarmid, op. cit., p. 217 quoting 4 Edward VII, c.11, sec. 19.

Most of the dumping was done by trusts and combinations which exported their surpluses to Canada at a very low price in the hope that, beside bringing in some revenue, they would force Canadian industries out of business. If this happened the foreign manufacturers would be able to control the Canadian market and set their own price. The dumping clause was introduced to curb this activity in preference to increasing the protective tariff. As explained by Mr. Fielding, "The dumping condition is not a permanent condition. It is a temporary condition and therefore it needs only a temporary remedy that can be applied whenever the necessity for it arises".[1] The dumping clause of 1904 did not cover imports that were on the free list but in 1907 the clause was extended to all schedules except where the duties were equal to fifty per cent ad valorem.

The next major changes in the tariff were made in 1907. In 1905-6 the government appointed a Tariff Commission to investigate and hold hearings on the benefits and burdens of the tariff. It was hoped that, in this manner, revisions in the tariff could be made which would further develop Canadian resources and build up industry by a more equitable tariff policy. Organized farm groups made strong appeals at the hearings, for a lowering of the tariff. The movement for increased protection had no support outside the ranks of the manufacturers. The Canadian Manufacturers' Association had since 1901 increased

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1) Porritt, op. cit., p. 407.

its clamour for protection using any excuses for protection that would serve the purpose. At the hearings, however, the manufacturers were not of one accord. The interrelations of various types of industries and the dependence of one industry upon another caused considerable discord. Some of the manufacturers asked for increases on articles on which other manufacturers demanded lower rates.[1] This lack of unity on the part of the manufacturers, and the strong organization of the agrarian interests resulted in the abandoment of any schemes for increased protection. Manufacturers did gain some consideration when the one-third differential on British exports was replaced by a preference tariff which varied with each article. With this more specialized tariff, preference on articles which would enter into competition with Canadian manufactured goods was low, while those articles which were not manufactured in Canada but imported were given a much high preference. As a concession to the agricultural group, the levy on farm machinery was reduced from 20 to 17½%. To protect the farm machinery manufacturers a drawback of 99 per cent was allowed on iron and steel used in the industry, and in order to aid the iron and steel industry a 99% drawback was allowed for bituminous coal used in that industry. Bounties on iron and steel were extended to last until 1910 with declining rates.

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1) Clark, S. D., The Canadian Manufacturers' Association, University of Toronto Press, Toronto, 1939, p. 18.

The most significant change was the introduction into the tariff of an Intermediate Schedule. This schedule was entered as a basis for negotiating commercial treaties with countries outside the Empire.[1] The schedule ranged from 2½% to 5% below the general rates and applied to articles specifically listed in the treaty. Imports under this schedule proved to be of small value. Treaties were negotiated with France in 1907, Italy in 1910, and Japan in 1911, but it was not until 1935 when the schedule was extended to the United States that imports under the schedule gained any importance.

Reciprocity Negotiation.

Since 1893 reciprocity with the United States had been a dead issue in Canadian politics. As the Canadian population increased rapidly after 1896, however, visions of the enlarged market became more appealing to Americans. At the same time the Canadian people were more opposed to the idea of reciprocity. Canada was in her golden era. The country was rapidly expanding, immigration was on the increase, protected industries were booming, trade relations with the Empire and foreign countries were improved. Therefore no move for reciprocity came from the Canadian people as it had in the years before 1896. The re-introduction of reciprocity talks this time came from the American people. Agitation for tariff reform stemmed from impatience towards the high tariff schedules that allegedly produced monopolies which had kept the cost of

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1) Annett, *op. cit.*, pp. 34-35.

living high. In 1910 the United States proposed a general reciprocity treaty calling for free trade in natural products and identical low duties on secondary food products, agricultural machinery and other items. The reductions in duty averaged ten per cent in the United States and five per cent in Canada.[1] In 1911 an agreement was reached and the treaty was to be implemented by joint legislation. July of that year saw the agreement ratified by the United States Senate but in Canada the passage of the bill was delayed by a well-organized opposition. The Liberals in September took the issue to the people. In spite of the strength of the Western farmers and the anti-protectionist groups, the government was defeated and reciprocity was lost for another twenty-five years. The Underwood tariff of 1913, however, gave Canada most of the advantages which she would have gained by reciprocity, and the United States maintained a moderate tariff policy towards her until 1919.

General Economic Effects.

The period from 1896 to 1913 is regarded as the most prosperous and hopeful in the growth of the Dominion.

The Liberals on coming into power in 1896 maintained a protectionist policy on the tariff question. The claims of the manufacturers were recognized by a government that had openly avowed that when it came to power it would not recognize vested interests. However, the United States had by this time

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1) Ibid, p. 40.

become a great manufacturing country, and with close proximity to the Canadian market and a similarity of demands in the two countries, the use of the protective tariff was justified.

The introduction of a British preference into the schedule was a move to satisfy the demand of the growing low-tariff groups. It was also intended that British - Canadian ties would be strengthened. The British preference provided an expansion in Canadian industry by the increase in establishment by American firms of branches in Canada. These branches were established not only to avoid the high protective tariff on imports, but also to gain the advantage of Canadian manufacture in Empire trade. British investment poured into Canada during the period not only in the expectations of a great domestic expansion but also in the expectations of stronger trade relations with the United Kingdom under the preference.

Manufacturing expanded at a great rate. Between 1900 and 1910 the net value of manufactured product increased from 214.5 million to 564.5 million dollars.[1] Imports into Canada during the period were, in the main, items to be used in Canadian industry and were items in which the United States had a comparative advantage over the United Kingdom. British exports during the period were more in the line of staple exports such as woollen goods. Tariffs and bounties diverted a large portion of the growing demand to Canadian producers.

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1) <u>Report of the Royal Commission on Dominion-Provincial Relations</u>, King's Printer, Ottawa, 1939, Book I, p. 73.

In the period, approximately seventeen millions were spent by the government on bounties. The market for consumers goods was boosted by the settlement of the West. Over 200,000 new farms were added in the prairies. In spite of this increase, the number of people working in industry remained proportionately the same. Urbanization increased with industrialization. Industry tended to concentrate in Central Canada as a result of cheaper transportation and the benefits of large-scaleproduction. During the period important beginnings were made in the non-ferrous metal smelting and the pulp and paper industries. But the greatest advance was made on the prairies in the wheat industry.

Agriculture in the Prairie Provinces was dominated by one crop: wheat. This product provided one-third of Canada's export trade by the end of the period and provided the reason for the large influx of settlers. The settling of the prairies provided, at last, the economic integration which the founders of Confederation had envisioned. Wheat shipments moved over the rails and water system that had been built to unite the Dominion. Capital flowed into the country. The industrialists of Ontario and Quebec had now an expanded and protected market for their products. The settlers of the West provided an increased demand for lumber from British Columbia. Only the Maritimes did not benefit from the expansion. The mass production of Ontario and Quebec cut in on their naturally-sheltered local industries. Only the iron and steel industry under the tariff and bounties, expanded with the increased demand for steel and rail for construction and railways. Unfortunately, this increase was not enough to make up for the losses of the other industries.

During the period the tariff, combined with large scale manufacturing, created a greater price difference between Canadian and American goods. The "infant industry" argument was replaced by arguments for "vested interests". The manufacturers demanded that the expanding Canadian market be reserved for them so that with a greater volume of production they could specialize more. Another argument was that if the period of prosperity should come to an end they should be provided with greater protection against cheaper imports. To counter these demands for increased protection, the larger agrarian groups were clamoring for lower tariffs. The tariff and large-scale manufacturing resulted in an increase in mergers with a resulting greater control over prices. Expansion in industry was not only horizontal but vertical. The Canadian Manufacturers' Association and The Grange movement both grew stronger in the battle for political influence.

<u>The Iron and Steel Industry</u>.

The Canadian iron and steel industry of today is largely the result of the national policy of 1896-1911. In the schedule of 1897, reductions on iron and steel goods were made in an attempt to give concessions to all. Articles not produced or produced in small quantities were taxed at a minimum. Barbed wire and fencing were admitted free to pacify the farmers. Reductions on primary products were made to aid the finished products industry. These reductions were made in the face of a clamour for lower tariff, and in order to safeguard the industry the government was forced to extend the bounty system which had been introduced in 1883. The rates of the bounty were increased and the length of time of payments was extended for five years. The system was also extended to steel products. The extension of the bounties and the retention of the tariff was explained by the "vested interests" argument and the claims that the bounty would be automatically reduced. The arrangement eliminated the dissatisfaction in the industry over higher prices as a result of the tariff. The bounties on ore provided a lower price on pig and scrap iron to the secondary industries which was passed on to the finished goods industry and eventually to the consumer.

In 1899 the bounty system was extended until 1907 on a decreasing scale. The government explained that this extension was necessary in order to enable industry to get on its feet and at the same time by decreasing the bounty level the industry would become independent. The bounty system, however, did not keep peace in the industry and agitation in the industry resulted in the tariff changes on coal, iron and steel mentioned earlier in the chapter. The government would probably have extended the bounties in 1910 but for the vigorous and organized opposition of the farmers and the growing tendency towards combinations in the industry.[1)]

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1) Donald, Canadian Iron and Steel, op. cit., p. 153.

As the bounty system is so closely entwined with the tariff it is difficult to assess the independent value of each. Had duties alone been granted, the prices of iron and steel products would have risen. The bounty system on the other hand offsets part of the costs of production at the expense of the Treasury. Home production thus is possible without an increase in price to the consumer. But the main advantage of the bounty system is that it allows protection of the industry and then declines as the industry matures.

In the industry production increased greatly during the period. Consumption of pig iron increased tenfold. The greatest development occurred in the primary industry in Nova Scotia and Ontario. Primary industry was localized in Cape Breton Island and Algoma and secondary industry was established at Hamilton and Montreal.

Combinations flourished in the industry under protection and in competition with the large American iron and steel trusts. The promoters hoped that combinations would reduce administration costs and, by allocating the market, cut down on transportation costs. Most of the combinations consolidated plants manufacturing different kinds of products. Opposition to these combinations caused the government to terminate the bounty system in 1912 in spite of manufacturers' demands for its continuation. The tariff gave the manufacturers a reason to combine and assisted them to combine by limiting the amount of competition in the industry.

The Farm Machinery Industry.

From 1900 to 1910 the industry experienced its greatest period of expansion. In response to agrarian pressure the government in 1897 lowered the tariff somewhat on agricultural implements. Drawbacks on duty paid on imported parts were granted, and bounties placed on domestic raw materials. By 1898 exports of implements had increased to over the million dollar mark in spite of high American competition. The market in the West expanded considerably during the period and value of output increased from $9.5 million in 1901 to $20.5 million in 1910.

Combination and amalgamation in the industry followed expansion. Approximately a hundred plants were absorbed or disappeared from production in the ten years from 1891. Out of this combination grew the mighty Massey-Harris organization. In 1903 International Harvester established a branch in Canada to avoid the twenty per cent duty. Mr. Metcalfe of this firm stated that costs of production in Canada were about the same as costs in the United States.[1] In spite of this equality in costs of production the Canadian farmer paid higher prices than his American counterpart.[2]

Protection resulted in a considerable horizontal expansion in the industry. The number of firms declined by approximately fifty per cent in the period, while the net value of the product increased by over seventeen per cent.

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1) McDiarmid, op. cit., p. 248.

2) Ibid, p. 250.

The Textile Industry.

The textile industry, which had expanded considerably under the first national policy, was placed on unsure ground with the addition of British preference to the schedule of 1897. It was soon apparent, however, that no harm could come to the cotton industry as there was no stiff competition from the United Kingdom. Imports of grey and bleached fabrics increased somewhat under the lower tariff rates. Production increased at a rapid rate with imports of raw materials increasing 120% from 1890 to 1910.

Mergers in 1890 and 1892 and placed control of the industry in the hands of two companies. New firms entered the industry around 1900 and competition was strong. In 1905 a new syndicate, the Dominion Textile Company, took over the Dominion Cotton Mills, created in the merger of 1890, and four other plants to control over half the capital equipment of the industry. New firms appeared and a concentration of the industry in Quebec, with its cheap labour, became apparent. By 1910 two thirds of the industry was located in Quebec.

With the introduction of the British preference the woollen industry declined. Total production dropped fifty per cent from 1899 to 1909. Increased specialization by the British with their larger market was responsible for the drop in Canadian production as finer fabrics appeared. The industry was forced to import more of its raw materials in order to produce the finer fabrics necessary to compete with the British industry. Competition caused such a decline in production that the number of firms in the industry fell from 154 in 1900 to 87 in 1910. In 1900 an attempt was made to merger five of the plants but the merger failed in 1904 and four out of the five plants ceased production. The net value of production during the period 1890 to 1910 dropped from four million dollars to two and a half million.

In 1897 a general rate of thirty-five per cent had been established for knitted goods. Under the British preference, rates became approximately thirty per cent in 1897 and twenty six and a quarter in 1898. In 1900 the preference was again increased so that protection was down to twenty-three and a third per cent. During the period, in spite of the decrease in protection, there was considerable expansion of the industry. New firms were established while older plants were expanded. The number of employees increased by 4,000 from 1900 to 1910 while the gross value of production increased almost 250%.[1]

Only the woollen textiles industry declined in the period. The decline, however, cannot be attributed alone to a lowering of protection under the Imperial preference for when an increased impost was levied in 1904 it did not check the decline in the industry. Although the cotton industry expanded considerably a large portion of the increase was due to the demand for industrial cotton. But the reservation of

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1) Royal Commission on Textile Industry, <u>op. cit.</u>, p. 46.

the expanding market in the western provinces was a great boon to the industry.

Agriculture.

The tariff of 1897 did not offer any relief from protection to the farm interests. Some compromise was made to agriculture, but there was no change of the protection policy which the Liberals had only a few years before so strongly denounced. As the settlement of the west proceeded strong representations were made by organized farm groups for the lowering of the tariff. The tariff of 1907 showed some attempts at recognition of the growing political strength of the farmers. Rates were reduced 2½% on agricultural implements and tools, and gasoline was placed on the free list. The change to a three-schedule tariff was, according to Sir Richard Cartwright, the Minister of Finance, a concession to the agriculturalists. The schedule of that year also contained tariffs on agricultural produce although the farmers had pointed out the uselessness of such duties.

The reciprocity issue of 1911 found the agrarian organizations united as never before. The West had expanded greatly and by 1910 the three largest farm associations claimed a membership of thirty thousand. It is small wonder that the reciprocity issue became a battle of pressure groups. Better organization on the part of the protectionists resulted in the defeat of the Liberals, although the manufacturing interests had nothing to lose on the issue. The arrangement for reciprocity was essentially a free list of natural products. The only benefit that Canadian farmers would have gained would have been an extension of their market.

The most important economic factor in the period was the opening up of the west to settlement. By 1913 this area contained one-fifth of the population of Canada, and of these two-thirds were engaged in the production of wheat. By the end of the period wheat provided one-third of Canada's export trade. Wheat was directly or indirectly the cause of most of the heavy foreign investment in Canada during the period.

<u>Conclusion</u>.

The period 1896-1911 saw the golden era of Canadian expansion. With the opening of the West, immigration increased rapidly. This increase in the domestic market placed Canadian manufacturers in a favourable position as the high tariff policy, in the main, prevented inroads into the market by foreign competitors. The small manufacturing establishments of the earlier period were replaced by large-scale manufacturing organizations. These organizations resulted from mergers and combinations in an attempt to lower costs and provide for a greater diversification of product. Under the Second National Policy the tariff was redesigned to give concessions to both the protectionists and the free traders. The Imperial preference introduced by Canada was an effective implement in the lowering of tariff barriers within the Empire.

CHAPTER V

War and Post War Tariffs

1912 - 1930

By 1912 when the Conservative government headed by R. L. Borden assumed the management of the country's affairs there had ceased to be any serious differences of opinion between the two major political parties on the tariff question.[1] The election of 1911 had not been contested on a tariff policy platform but rather on the reciprocity issue. With the Liberals defeated reciprocity was not negotiated and the issue was shelved until 1936. The failure of the reciprocity attempt probably gained Canada as much as if the negotiations had been successful. The Americans had placed wood-pulp on the free list after the failure of negotiations. In 1913, by the Underwood Tariff, the Americans admitted free the majority of Canadian natural products which had been on the reciprocity lists. The United States, in the same year, offered free admittance of Canadian wheat if Canada would remove her duties on American wheat and flour. Canada refused this offer through fear of natural north-south trade springing up which would reduce the value of the trans-continental railway system. In 1917 the United States allowed for free importation of Canadian wheat.

There was, then, no major change in tariff policy in

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1) Annett, op. cit., p. 46.

the years of the Borden administration. Bounties on iron and steel were allowed to lapse in 1912. The government stated that it was not in favour of a direct subsidy to a mature industry. But although it was not favourable to direct subsidy the government was still willing to provide protection to the industry. Drawbacks on exported products manufactured from imported pig iron were liberalized. The drawback was based upon the amount of pig iron used in the finished product. In 1914 pig iron received an increase of duty in the intermediate schedule, from \$2.25 to \$2.50 per ton, to bring it to the same level as the general tariff. Wire rods which had previously been admitted free were now dutiable at \$2.25 per ton on British preference and \$3.50 on the intermediate and general schedules. Wire rods which were imported for use in fencing and wire were permitted a drawback on duty paid. Rolled iron and steel, angles and beams weighing less than 120 pounds per yard were given duties of \$4.25 under the preference, \$6.00 under the intermediate and \$7.00 under the general tariff. Items weighing over 120 pounds per yard were taxed at the general rate of \$3.00 per ton. The duty on harvesters, mowers and reapers was lowered from 17½% to 12½%.

These changes in tariff were the only ones effected by the Conservatives until the entry of Canada into the war called for an increase in revenue which could, at that time, be most easily obtained by an increase in duties. In August 1914 coffee, tea, cocoa, sugar and tobacco all had their rates increased. In April 1915 a surtax was placed on imports. Goods imported under the British preference were taxed at five per cent while those imported under the general and intermediate schedules were taxed at seven and a half per cent. Materials used in harvesting equipment, binder twine, anthracite and munitions were exempt from the surtax while crude petroleum was placed on this exempt list in the next year. The surtax yielded over $180 million to the Treasury between the years 1915 and 1920. The purpose of the surtax was definitely for revenue but the increase was attacked by the farm interests as an attempt to provide further protection to manufacturers.

The yield from the surtax was not sufficient to meet the high debts of a country engaged in large scale warfare. To increase the revenue, the Dominion turned from the tariff, which had been the principle source of revenue since Confederation, and resorted to other methods of taxation, direct and indirect to provide for its needs. Thus for the first time the Canadian tariff was absolved from its primary purpose as a revenue producer. From that date forward its has been possible to use the tariff for protection, if so desired, without thoughtas to the impairment of its revenue functions.

Duties on tea, coffee, tobacco and liquor were increased in 1918 to provide additional revenue but aside from these increases and the special surtax imposed in 1915 the tariff remained stable throughout the period. In 1919 the free list was extended by the addition of wheat, flour, potatoes, tin, copper, nickel in blocks, rolled iron and steel hoops, and iron ore. In this year the surtax on British goods was removed but the tax remained on most general list goods until the following year.

During the first two decades of the century the balance of political power had shifted westward and the agrarian influence was more strongly felt in Ottawa. Agrarian demands for a reduction of the tariff were now voiced strongly in Parliament itself. As a result of this influence, the duty on farm machinery was reduced to ten and fifteen per cent under the intermediate and general schedule in 1922. The producers of farm implements were granted drawbacks on the duties paid on materials so that the reduction in schedules would not cause them to suffer. The textile duty received reductions of 2½% which left the rates at 25 and 35 per cent under the intermediate and general schedules. Duties on fishing, mining and forestry equipment received reductions in the following year, the purpose being to provide cheaper capital equipment for the primary industries.[1] New industries were allowed to import equipment under a forty per cent drawback. In 1924 further reductions in the duties on capital equipment were made. Duties on farm machinery were lowered to 5, 7½ and 10%. Iron and steel used in the agricultural implement industry was admitted duty free.

1) McDiarmid, op. cit., p. 262.

1925 saw few significant changes in the tariff. A clarification of the dumping duties was made. The penalty duty was now made equal to the difference between the value of the goods for custom's entry and the export price of the goods to Canada.

Drawbacks on duties were extended in 1926 to cover materials used in the rayon industry and to include certain automobile parts. British preference was denied to goods not imported directly from the country of origin. A change in the method of levying duties on automobiles and parts was made (see section of Automobile Industry). In this year an Advisory Board on Tariff and Taxation was appointed. The task of the board was to remove politics from the tariff issue and create a "scientific" tariff which would provide more equitable protection. The board made its first recommendations in the following year and as a result of its findings cotton goods were reduced to thirty per cent in the general schedule. Reductions were made in other textile duties and British preference was widened. Drawbacks paid on materials to be used in goods for domestic consumption were broadened. 1929 saw removal of all duties on imported mining machinery.

British Preference.

The war brought about a closer integration of the Empire as it united in military solidarity to defeat the enemy. The close war ties increased public support in favour of a stronger economics bonds within the Empire. Canada had, in 1915, widened her preferential by a 3½ per cent differential.

A system of Empire tariff preferences was recommended by the Imperial War Conference in 1917.[1] The following year the Canadian Council of Agriculture proposed a reduction of British preference rates to at least fifty per cent of the general tariff. This reduction was to be followed by further lowering of the rate until over a period of five years free trade with the United Kingdom would be attained.[2] At the termination of the war Canada increased the preference by removing the surtax of five per cent on British goods while the seven and a half per cent tax on the general schedule was retained until the following year.

At the Imperial Economic Conference in 1923 Canada offered a ten per cent reduction in British goods which entered Canada by Canadian ports. This concession was introduced, probably, with the intent of aiding the east-west transportation of Canada more than in the altruistic interests of Empire preference. Canada which had introduced the British preference took a small part in the conference. A resolution to establish an Imperial Economic Committee was opposed by Canadian representatives on the grounds that such formal machinery was not required. As a result of the Conference some reductions were made in Empire tariffs, but it was not until the Ottawa Conference of 1932 that any great advantages were obtained by Canadian traders.

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1) Ibid, p. 258.

2) Annett, op. cit., p. 46.

General Economic Effects.

The war provided a stimulation to Canadian economy which was on the verge of collapse because of over-expansion based on foreign investments. The stimulus of war demands alleviated the situation, however, and by the termination of hostilities the expansion in production, combined with policies of the Federal Government, enabled Canada to become an important lender.[1] The war gave renewed life to industry which was almost on the brink of failure. The demand for Canadian wheat in European countries made possible full utilization of the railway systems. The expanding Western market provided a domestic outlet for manufacturing while the iron and steel industry received a shot in the arm from munitions contracts. The Maritimes became the exporting centre for goods bound for Europe.

During the period, the tariff remained relatively stable. Except for the war years there was a gradual reduction of the tariff level although many protectionist features remained. In the face of strong pressure, the Government scaled down Canadian tariffs in a period when other countries were raising theirs in an attempt to mitigate post-war economic disruptions. These reductions were made possible by the introduction of the income tax as a method of providing the major portion of government revenue.

The Intermediate and British preference schedules of

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1) Dominion Provincial Relations, Book I, op. cit., p. 89.

the tariff provided Canada with the basis for negotiation of treaties, during the period, with foreign and Empire countries. A treaty was negotiated with the West Indies in 1920 (revised in 1926) in which Canada allowed specified imports a remission of fifty per cent of the general rates. The revision provided for the previous remission to be applied to all articles except tobacco and liquor. In return concessions were granted to Canada on flour, fish, cement, boots and shoes, apples, and dairy products. In 1923 a treaty was negotiated with France which gave her intermediate rates on all non-specified articles. Canada gained, in return, minimum tariff privilege on manufactured products and a reduction in duties on live-stock, meat and poultry products. The treaty was a most-favoured-nation treaty and all countries entering into a most-favoured-nation treaty with Canada were entitled to concessions as liveral as those offered to France. In the following years, Italy, Belgium, Finland, the Netherlands, Czechoslovakia, Spain, Yugoslavia, Hungary, Roumania, Lithuania, Latvia, Estonia and Portugal were all given most-favoured-nation rates.

Throughout the period, with the exception of a short post-war depression, there had been a rising tempo of economic activity in the Dominion. Rising export values resulted from a shortage of food stuffs in Europe, and the application of new techniques to natural resources for which there was a rising world demand. The general effect of the lowered tariff rates was to aid in the increase in this trade and thus provide for an increase in prosperity throughout Canada as a result of the close integration of the economy.

The Iron and Steel Industry.

The removal of bounties in 1912 did not have an overly great effect on the iron and steel industry. Production was well maintained in 1913 but in the first year of the war there was some reduction in the output of pig iron. The industry had expanded in the early part of the twentieth century as a result of the demand for rails, plates, etc., for railway construction. When the period of transportation expansion was over there was a recession in the industry because of the difficulty of switching over to less specialized production. The demands of war upon the industry provided an opportunity to switch over to more diversified production. Supplying of munitions caused an expansion and by 1918 the production of steel ingots and castings had increased by two-thirds over the 1913 production, with similar increases in other branches of the industry. Unfilled contracts and deferred replacements sustained output of the industry until the depression of 1921. It was not until 1928 that production regained the 1921 level of output.

The Automobile Industry.

The automobile industry is not a natural industry to Canada. Neither the better grades of ore essential to the industry nor the coal to work them with are found in Canada. Then, too, the location of Canadian plants, being as they are centralized in Ontario and a long distance from a considerable portion of the market, leads to a higher price to the Canadian consumer.

The growth of the industry may be attributed to the tariff. On the introduction of automobiles to Canada they were dutiable at thirty five per cent, the same rates that applied to their predecessors, buggies and carriages. In order to establish the industry in Canada the duty placed on parts was lowered to approximately thirty per cent. Thus an American manufacturer would establish plants in Canada to assemble cars and make a larger profit than if the complete car were imported. The tariff could not be placed too low, however, or there would be no incentive for the Canadian industry to develop above the assembling stages. Larger subsidies were also given to the firms which completely manufactured the product. Although this method has led to the foundings of the industry in Canada it has obviously placed the price of the Canadian product at a level at least thirty per cent higher than that of its American counterpart.

In order to increase the size of the market for the Canadian manufacturers, the government allowed a 99% drawback of the duty on articles used in products for export. By this mean, cost of production are approximated to American costs and the Canadian industry under the preferential tariff is able to compete favourably with the larger American firm.

A differential tariff was applied to automobiles in 1926. Previous to this the duty had been thirty-five per cent.

Passenger cars valued at more than $1200 were now taxed 27½, 25 and 15% under the general, intermediate and preferential schedules while those below $1200 were taxed at 20, 17½ and 12½%. This lowering in protection was offset in the same year by removal of the five per cent excise tax on cars under $1200 providing the Canadian content of the product was at least fifty per cent. The domestic market was not seriously damaged by these revisions though cheaper cars which were affected by the reductions made up a greater portion of the imports than before.[1]

The Agricultural Implement Industry.

The agricultural implement industry was aided considerably by the war-time demands for agricultural products. Farm machinery obtained additional protection under the revenue duties of 1915. As a result of this increased protection and resulting higher prices the agrarian interests petitioned for lower tariff. In 1919 the tariff was reduced by 7½% with the removal of the special war revenue duties. A further reduction was made on tillage machines while ploughs, threshing machines and engines were reduced to 17% and wagons and other haying implements were reduced from 25 to 25%.

In the post war period there was a considerable drop in output as prices fell. Volume of production fell by 90% from 1920 to 1922. A rigid price structure was maintained throughout the industry and, although farm prices only rose

1) McDiarmid, op. cit., p. 357.

twenty five per cent from 1913 to 1923, implement prices rose seventy per cent in the same period. Increased pressure from West forced the Liberals in 1922 to make considerable reductions in the protection to the industry. To appease the industry, duties on imports used in manufacturing were eliminated and the sales tax was removed from both goods used in the manufacture and the manufactured implements themselves.

From 1924 onward there was an increase in production inspite of lowered protection. During the period exports increased by over nine million dollars. Volume of production increased from 51 to 112 from 1922 to 1927 and in terms of value of production the increase was from 58 to 112.[1)] Thus the price was maintained in the face of lower protection to the industry.

The Textile Industry.

The war provided for a considerable expansion in the textile industry. Canadian manufacturers were called upon to supply not only the Canadian market but also to fulfill American war contracts. The consumption of raw cotton increased from 77 million pounds in 1913 to 96 million in 1920 while labour increased 23%. Increased production resulted from twenty-four hour production rather than from expansion in plants. Since the war, specialty plants have commenced operation. New lines have been developed as a result of change in styles and also because of industrial demands.

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1) 1926 - 100.

During the war there was slight increases in the duty for revenue purposes but the tariff remained substantially the same as in 1907 until the downward revision in rates after 1920. There was reduction of 2½% in 1922 and in 1923 the provision of a 10% discount on direct British imports tended to further lower protection. Further reductions were made in 1928 on the recommendations of the tariff board. Reduction of the tariff did not impair the industry as, after the 1922 reductions the import of raw cotton increased until by 1925 45 million pounds yearly were imported.

Because of the cut in British production due to the war, the Canadian woollen industry expanded rapidly. The number of mills increased from 52 in 1916 to 66 in 1920. After the termination of hostilities there was greater competition from the British industry and a consequent decrease in production in Canada. The number of plants decreased from 66 in 1920 to 46 in 1930. The reduced protection caused little havoc in the industry but the consumer demand was for a higher class product which Canadian industry, due to its smaller market, could not provide.

The knit goods industry received a strong impetus from the war as demand for knitted goods increased. Output increased and continued to increase through the twenties as knit goods became more popular. The number of mills increased from 128 in 1920 to 158 in 1930.

Conclusion.

During the period there was no major change in the tariff policy. Rather, there was, with the exception of the war years, a gradual reduction in the tariff rate. The tariff policy appears to have been towards a reduction of duty on all imports contributing to the means of production with a consequent reduction in the high cost of living. No major industries seem to have suffered as a result of the lowering of protection. The iron and steel industry, the farm implement industry and the textile industry had all been established on a strong enough basis to withstand competition from abroad. It is doubtful, however, if the automobile industry would have expanded without a protective tariff.

One of the most important moves of the period was the formation of the Advisory Board on Tariff and Taxation in 1926 in an attempt to provide a more scientific tariff.

During the period there was a greater diversification of industry as a result of the introduction of electricity and the internal combustion engine. The export trade became more diversified although wheat, pulp and paper and mining products remained the staple exports.

CHAPTER VI

Depression and Recovery

1930 - 1939

The collapse of the stock market boom in the United States in 1929 set off an economic chain reaction which created a world-wide depression. Canada with a high national income dependent on the maintenance of exports which were subject to wide variations in price, was particularly hard hit by the resulting stagnation of international trade. With falling prices, food importing countries immediately raised their tariffs to give protection to the home producer. As her exports fell, Canada was forced to adopt high tariffs to protect herself.

The United States dealt a particularly strong blow to hopes of recovery through international trade, by raising a high protection under the Hawley-Smoot Tariff of 1930.[1)] European and other countries were prevented from exporting manufactured products to her in exchange for agricultural products. In an attempt to protect their own producers, and in a spirit of intense nationalism, engendered by the war, a new wave of tariffs swept Europe. Canada was not long in following suit. Under the Dunning Tariff of May 1930 Canada retaliated with a broad extension of preference to Empire and most favoured nations. Rates were increased on 54 items and

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1) Faulkner H. U., *American Economic History*, New York, Harper & Brothers, 1943, pp. 646-647.

decreased on 46 in the general list; the intermediate schedule had 35 increases and 98 decreases while there were eleven increases and seventy decreases in the British preference schedule. At the same time the schedule on iron and steel was revised upwards.

In 1930 the Conservatives rode to power with a policy of complete protection for Canadian industry and agriculture. Selective protection was abandoned. Specific duties were combined with ad valorem duties to provide protection in the face of falling prices. Only imports not made in Canada were permitted free entry.

At the Imperial Conference of 1930 Canada had attempted to induce the United Kingdom to depart from her free trade policy and give preference to Empire trade. In this she was unsuccessful but by 1932 with the imposition of the British Import Duties Act, the United Kingdom provided the prerequisites to Empire preference. At the Ottawa Conference in 1932 the United Kingdom, the Colonies and the Dominions were bound more closely by a series of concessions in Empire trade.[1)]

As a result of the British preference arrived at by the Conference it was necessary for Canada to conclude new treaties with other countries. In June, 1933, a new treaty was negotiated with France. France provided minimum tariffs on natural goods with reductions of from 40 to 75% of the general rate on certain manufactured products. In return

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1) For a detailed study of the results of the Conference see McDiarmid, <u>op. cit.</u>, pp. 282-6.

France was granted a discount of from 10 to 25% below the intermediate rate on specialized products and the intermediate rate on a large group of other items. Successful negotiations resulted in a similar treaty with Poland in 1935. These treaties were not so important as those of the previous decade as a result of the broadening of the Imperial preference.

In 1935 the Liberals returned to power and a conciliatory policy towards the United States was adopted. After a series of talks an agreement was drawn up which, when introduced in January 1936, provided for a strengthening of Canadian-American trade. Canada received reductions in existing duties and an extension of the freelist. Most of the important concessions to Canada were on lumber, fish, cattle and whiskey. In particular the high duties on natural products which had been imposed under the Hawley-Smoot tariff were either reduced or abolished. The items affected constituted 66 per cent of Canadian exports to the United States in 1934. An innovation was introduced by the United States in the form of the quota system which permitted entry of certain Canadian natural products until the quota was reached when they would be subject to the full impost of the schedule.

Canada for her part granted the United States most-favoured-nation treatment as granted to other countries. Special reductions were given to 88 items by a rate lower than the intermediate level. Major concessions were granted to farm implements, electrical apparatus and machinery. Heavy machinery received reductions along with iron and steel. The clauses in the tariff concerning dumping and valuation were modified for clarification.

In 1936 the tariff on farm machinery was reduced by 7½%, the differential in the tariff on automobiles was removed and duties on textiles were revised by removing the specific duties from the British preference schedule.

As the 1932 Ottawa agreement had been placed on a five-year basis, renewal of the treaty came up in 1937. Canada guaranteed Britain certain margins on goods not made in Canada and a preference list on goods of any manufacture. If the duty became less than margin the goods were to be admitted free. Discriminatory duties were not to be levied against each other. The United Kingdom left most Canadian meats on the free list, while wheat and fish were given free entry with a margin of preference over other countries. The Dominion was also required to supply a certain quantity of favoured goods at world prices or lose the preference. Exemption from dumping duties was also granted to particular classes of British goods.

In 1938 a new treaty between the United States and Canada was negotiated. Canada offered rates below the intermediate level to imports of American cigarettes, candy, certain tropical fruits, chemicals, metal alloys and electric supplies. Concessions were also made on some iron and steel products and the free list was extended. In return Canada received lower rates on some iron and steel products, aluminum and some manufactured lumber products.

In 1939 the three per cent excise tax was removed from all goods except those on the general schedule. Non-British crude rubber and tin was dutiable at five per cent. Copper alloys received duties of 7½, 15 and 25 per cent while magnesium alloys were imported at 5, 12½ and 25 per cent. Bituminous coal manufactured into coke received fifty per cent drawback.

This listing completed the tariff changes from the depression through recovery to the start of the second world war.

<u>General Economic Effects.</u>

Through the period of depression and recovery the effects of the tariff have been so intermingled with other depression and economic effects that it is impossible to state definitely how the tariff mitigated the effects of the depression or aided Canada on the road to recovery. It is accepted that the increase in the tariff was necessary in order to protect the Canadian producer from inroads into the domestic market by foreign competition. The principle of select protection gave way to a policy of full protection which was in turn superseded, through Anglo-Canadian and Canadian-American agreements which re-introduced select protection.

The idea of a self-sufficient Empire which had grown out of the Ottawa Conference in 1932 fell into disrepute as Canadian-American trade relations improved. With a liberal trade policy the United States could expect Canada to enter into her commercial policy but when the United States levied adverse tariffs Canada could be expected to retreat to the shelter of Empire preference.

The Ottawa agreement was of a negative character in that the Empire preference was attained by denying entrance to foreign goods than by reducing the level of Empire tariffs. In contrast to this were the results of the Canadian-American treaties which attempted to provide a positive downward revision in certain goods and expansion of the free lists.

The Iron and Steel Industry.

Although the war had caused a diversification in production of the iron and steel industry, there was still a tendency towards over-specialization in heavy railway equipment. As a result of this over-specialization the industry was subjected to considerable stress by the depression. Pig iron production, by 1932, had fallen to twenty per cent of the 1926 level while steel output was reduced to 44 per cent. Increases in the tariff of 1930 provided some benefits to the industry. By 1933, the primary industry supplied 85% of the Canadian market, an overall gain of 30% from the 1928 figure. Structural steel and rolling mill products showed the greatest gains in self-sufficiency. Imports of these products dropped from $35 million in 1928 to $2.2 million in 1933. Slight gains in imports were made after the United

States Trade Agreement in 1935.

Although the home market was reserved for the industry, production dropped approximately seventy per cent from 1928 to 1933. We may thus assume that the tariff policy was successful in obtaining a larger share of the domestic market for the industry, but because of the small market, production could not be maintained at a high level. The tariff, although it provided a certain amount of protection in the industry, provided for a level of price which was maintained above the general price level of the country. The industry, although strongly protected and subsidized in its infancy has failed to establish export markets and has constantly relied upon imported raw materials. But because iron and steel products are not generally bought by the consumer but as a part of some other product, the protection of the industry is overlooked by the consumer.

The Automobile Industry.

In 1931 the tariff on imported automobiles underwent revision. The general tariff remained at 20% for cars valued at less than $1200 but there was an increase to 30% on cars with a higher value, while those over $2100 were taxed at 40%. The value for import duties was changed and the maximum dealer discount allowed for duty purposes was 20%. Any difference between the list price less dealer's discount and the value for duty, less the fixed 20% discount, could be charged as a dumping duty. The clause was effective in removing considerable demand for imports and with the change in rates caused a shift from the higher-priced imports to the more popular low-priced product in which the Canadian industry specialized. The increase in duties did succeed in maintaining a demand for the Canadian product although Canadian demand declined twelve per cent more than American demand during the depression years. This is attributed to the greater fall in incomes of agricultural and extractive labour which made up a larger part of the buyer market in Canada.

In 1932 under the Ottawa Agreements, cars manufactured in the Empire were admitted to Canada duty free. In 1935 the duty on American cars was lowered to 17½, 22½ and 30%. The difference in rates was removed in the following year and the tariff fixed at 17½% for all classes of American automobiles.

The Agricultural Implement Industry.

The farm implement industry is not so dependent on the tariff as on farm income for its survival. As a result of the drop in farm income in 1930, the industry was hard hit by the depression. Output dropped in volume from 112 to 11 [1] from 1929 to 1932. The re-introduction of the protective tariff failed to halt the decline, although it did eliminate imports. The home market itself, however, could not maintain a demand large enough to sustain output. In spite of the lowered production, prices of the product did not decline but were maintained at a fairly high level during the period. The price factor cannot be attributed completely to the tariff. The tendency of the

1) 1926 = 100.

industry seems to be that, during periods of depression, prices are maintained at a high level and output is cut. With a decreased domestic demand and a reduction in its foreign market production in the industry could not be maintained.

In summary we may conclude that because of its dependence on farm income, the industry has proved to be rather unstable in times of economic crisis, and it is doubtful if the tariff has been of any value in the maintenance of output, or of incomes, in the industry.

The Textile Industry.

The textile industry unlike the other major industries remained fairly stable during the depression years. While the price of materials, imported for the industry, dropped rapidly the industry was aided by increased protection. In 1930 specific duties were added to ad valorem rates to provide more protection in the face of falling prices. The British preference was widened by increasing the rates of the other schedules rather than by decreasing British rates. Administration features of the act and the special excise tax brought about an increase in duties of approximately 71%.[1)]

The cotton industry was the hardest hit of the textile division. Imports of raw materials fell from 139 million pounds in 1929 to 93 million in 1932. Cottons, under the tariff, gained an increase of 11% in the Canadian market from 1929 to 1933. Employment of the industry fell by 23% in the

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1) McDiarmid, op. cit., p. 373.

period, probably due to the large size of the firms and the relative difficulty of expansion.

The woollen industry, as a result of the tariff, gained in production so that by 1936 there was an increase in employment of 58 per cent over the 1929 level. Mills were re-opened and existing plants enlarged. The net value of production increased by four million from 1930 to 1936. Reductions in the tariff were made in 1932 when the specific duties imposed in 1930 were lowered by 25%. In 1935, under the Canadian-American Agreement, changes in method of valuation reduced the tariff. Again in 1937 reductions were made in the British list amounting to 2½ to 5%.

The knit goods industry remained fairly stable during the depression although employment level dropped 18% during the period. The industry's share of the home market increased under the tariff. Silk and artificial silk producers were more immune to the depression and managed to double their employment from 1929 to 1934. Silk hosiery was the only export of the textile industry after 1930.

The textile industry fared well under the tariff. Protection reserved the home market for the industry while falling prices in raw materials eliminated the necessity of passing on the effects of protection to the primary producer and the consumer.

Conclusion.

The protective tariff was re-introduced during the depression primarily to reserve the home market for the export industries in an attempt to maintain employment at a higher level than would otherwise have been the case. There was a great diversion of the home market from imported articles to articles of local manufacture but the demands of the market were not sufficient to keep production output at the pre-depression level. Prices in the protected industries were maintained at a higher level than prices of imports. Thus, purchasers with their incomes at the same, or at a lower level, could not purchase in the same quantities. As a result, incomes of thw workers in the protected industries were lowered. The maintenence of higher prices also dealt a blow to members of the export class as their real income was reduced.

Of secondary import, was the use of the tariff as an instrument for negotiating treaties. The trade agreements which resulted from the Ottawa Conference and the Canadian-American talks of 1935 gave advantages to many of the export groups. It is considered that the latter purpose of the tariff proved more effective in aiding Canada on the road to recovery than the first.

CONCLUSION

Throughout the preceeding chapters we have attempted to trace the history of the Canadian tariff and its effects upon some of the major importing manufacturing industries. It is now necessary to review these effects from the long-run view and, in this way, to estimate the value of the tariff in the Canadian economy.

We are not concerned with the revenue tariffs of the early period. It is sufficient to state that they served their main function of providing funds for the Government. We shall, therefore, concentrate our review on the protective tariff and its main features.

The policy of tariff protection is interwoven with the "national" policy of Canada and cannot be completely segregated from the other divisions of that policy, for, in many instances, the tariff policy was correlated with others in the attempt to build a new nation on the North American Continent.

The policy of protective tariffs was accepted by Canada before the era of expansion began. While the policy did not provide a rapid incentive to the growth of the nation, it gave direction to this expansion. Under the tariff wheat from the west flowed eastward over Canadian rail and waterways. The reservation of the western markets for the manufacturers of Ontario and Quebec provided return shipments for the carriers resulting in lower transportation rates. The West provided a market for British Columbia lumber and fruit until the opening of the Panama Canal provided easy access to foreign markets.

The Maritimes gained little from the protective tariff policy. Expansion in the provinces by the sea had been completed before the introduction of protective tariffs. Under the policy, local industries were forced to compete with the larger manufacturing plants of Central Canada and gradually withdrew from production. The export industries, fishing, lumbering and agriculture, were hampered by the tariff which increased costs without increasing selling price.

The growth of industries in Quebec and Ontario under the protective tariff caused population to gravitate towards the manufacturing centres of these areas at the expense of the other provinces. The tariff caused purchasers from the West and from the Maritimes to satisfy their demands in the markets of Central Canada rather than in the United States. The higher prices of these goods resulted in a loss of real income to the purchasers.

Throughout the period 1879-1930 the tariff, with minor exceptions, remained fairly stable. There was, if anything, a downward trend in the rates over the period. By the introduction of subsidies and drawbacks, attempts were made to lower duties and at the same time to provide protection to industry. The extra cost of these subsidies was born by the Treasury instead of the manufacturers who stood to gain by them.

There is no argument against a tariff policy which is instituted to provide protection, primarily, for infant industries. We have seen that under the policy the iron and steel, and the farm implement industry, gained a firm foothold. But there is no advantage to be gained by continuing protection once the industry is on its own feet. Such a policy tends to reduce the real income of the people in the long-run. In a protected industry prices are higher and the additional cost to the consumer provides for a lower real income. Canada's most effective industries are her extractive industries. In these fields the ratio of population to resources is low. Under the tariff, there has been a re-direction of labour from these fields into industry in which more labour, relative to rosources, is used. As a result of this diversion, the number of workers in extractive industries has been reduced while the total population has increased, leading to a reduction in the national real income per head.

It may be safely stated that there has been a closer integration of the provinces as a result of protection. The tariff policy, correlated with the transportation policy, has provided industry with markets within the Dominion's borders. East-west trade routes have been developed notwithstanding the natural north-south routes that exist.

We may conclude, then, that Canada's policy of protective tariff has not benefited the nation as a whole but has tended to lower the standard of living, by the reduction of real income, per head, of population. In times of financial stress, the protective tariff has distorted the price structure still more, in its attempt to divert trade from its normal channels. The removal of all protective tariffs would, in the long-run, prove more beneficial to the economy of the nation.

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